AMERICAN UNIVERSITY OF BEIRUT

THE ASSOCIATION OF AFRICAN AND MALAGASY STATES WITH THE EUROPEAN ECONOMIC COMMUNITY

An Essay on the Nature of Relationships between Developed and Developing Countries

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INTRODUCTION

The fact of interdependence among nations is a relatively recent development. For some three or more centuries after the emergence of the modern nation-state in the late fifteenth and early sixteenth century, international affairs had comparatively little effect on domestic political and economic forces. But as industrialization progressed in the second half of the nineteenth century, and advances in transportation and communications began shrinking the distances which once separated the various parts of the world, nations have come to realize that they are affected more and more by forces beyond their individual control, and have undertaken to develop new methods for adapting themselves to this situation.

In this growing interdependence of nations, an often raised question has been whether nations at disparate levels of both economic and socio-political growth enter into reciprocal and mutually advantageous relationships with each other. The question has attracted a great deal of attention, from historians, economists and political scientists, who studied it in the form of modern imperialism and colonialism, and from sociologists and anthropologists, in terms of "culture contacts" and conflicts between multiracial societies. This essay is about such relationships, and we shall specifically be concerned with those developed within the framework of the Association of African and Malagasy States with the European Economic Community (EEC).[1]

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[1]The basic principles and objectives of this Association were laid down in Part IV of the EEC Treaty (1957) which associ-
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To understand our research problem fully, it may be well to make a brief statement of the motives which caused us to undertake the exercise within the frame of reference of this Association. The idea in fact grew out of our noticing a striking incompatibility between those who commend the Association and those who condemn it. On the one hand, the Association is praised, notably by its actors, as a model form of mutually advantageous cooperation worked out on a footing of complete equality between countries at earlier stages of economic and political growth, and more advanced countries. The Association Convention defines it as a manifestation of a "volonté mutuelle de coopération sur la base d'une complète égalité et de relations amicales dans le respect des principes de la Charte des Nations-Unies."[2] Its over-all ob-

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ated, for a first period of five years as from the date of the Treaty's entry into force (January 1, 1958), the overseas dependencies and trust territories of Belgium, France, Italy, and the Netherlands with the EEC (see Interim Committee for the Common Market and EURATOM, Treaty Establishing the European Economic Community, and connected documents [Brussels: Interim Committee, 1957]). The system in force is the outgrowth of lengthy contacts and negotiations at various levels--parliamentary, ambassadorial and ministerial--between the representatives of the EEC and the representatives of the associated African States which became independent in 1960-62. Signed at Yaoundé (Cameroon) on July 20, 1963, the five-year Association Convention governing this system came into force on June 1, 1964. (The gap between the date of expiry of the first Convention [December 31, 1963] and the date of entry into force of the Yaoundé Convention was bridged by transitional measures commonly agreed on in December 1962.) The Associated African and Malagasy States (referred to as the "associated States" throughout the text of this essay) are: Burundi, Cameroon, Central African Republic, Chad, Congo (Brazzaville), Congo (Leopoldville), Dahomey, Gabon, Ivory Coast, Malagasy Republic, Mali, Mauritania, Niger, Ruanda, Senegal, Somalia, Togo, and Upper Volta.

[2]European Economic Community, Convention d'association entre la Communauté économique européenne et les Etats africains et malgache associés à cette Communauté et documents annexés.

jective is in the terms of Article 1 ". . . de promouvoir l'accroissement des échanges entre les Etats associés et les Etats membres, de renforcer leurs relations économiques et l'indépendance économique des Etats associés et de contribuer ainsi au développement du commerce international . . ." From the preliminary meetings through the signature of the Convention, representatives from both sides spoke in similar terms on the bases, principles and objectives of the Association. In the text approved at the close of the first meeting between the Ministers of the associated States and the EEC Council in December 1961, the participants affirmed that "the Association is based on a desire for co-operation freely expressed by sovereign States negotiating on terms of complete equality."[3] Its object, formulated in accordance with the principles set out in the EEC Treaty, was expressed as the furtherance of "the interests of the associated States and the prosperity of their peoples in such a manner as to promote their economic, social and cultural development."[4] Similar assertions were made at the time of signing the Convention in 1963. President Amadou Ahidja of the Federal Republic of Cameroon, spoke of the "balanced amalgam of benefits freely and mutually granted . . ;"[5] and Joseph Luns, then President of the EEC Council, made the following statement:

> The Association [is] based on certain fundamental principles on which we had reached agreement as early as December 1961. These principles--equality and reciprocity--have guided us throughout our negotiations . . . They are to be found in the institutions and machinery which we have created because these are the expression of political equality among our States and our mutual recognition of each other's sovereignty.[6]

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[3]European Economic Community, Commission, <u>Bulletin of the EEC</u>, V, No. 1 (1962), 14.

[4]<u>Ibid</u>.

[5]<u>Ibid</u>., VI, Nos. 9-10 (1963), 9.

[6]<u>Ibid</u>., 12-13.

For all their emphasis and recurrence, such assertions did not go unchallenged. In fact, criticism was raised in certain African quarters, denouncing the Association as the limited "neo-colonialism" of the French, Belgians and Italians, now being merged into the "collective neo-colonialism" of the European Economic Community. The condemnation may be associated with the names of militant African nationalists--Nkrumah, Nasser, Touré--who are strongly disillusioned about relations with the ex-imperial powers.[7] Yet if opposition had developed, then there should have been good cause for disputing the declared objectives and principles of the Association.

In attempting to ascertain what this Association really represent, two distinct but interrelated determinants of equalization of relationships in a social system were assumed. These determinants are relevant not only to individuals, but to social organizations in general. They are: (1) the actors' initial bargaining powers; and (2) the actors' competitive opportunities, once the system is in operation. But since we did not know much about the nature of the economic and other variables involved and their implications where unequal and different societies--the so-called developed and developing countries--are concerned,[8] it would have been premature for us to base the plan of our research on any short cut hypothesis about the equalization of relationships in this case, and to proceed therefrom to an examination of the nature of relationships within the Association of African and Malagasy States with the EEC. To develop any meaningful hypoth-

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[7]See, e.g., Kwame Nkrumah, Neo-Colonialism: The Last Stage of Imperialism (London: Nelson, 1965), pp. 18-19.

[8]The terms "developed countries" and "developing countries" are used to mean respectively countries at very advanced stages of economic and socio-political growth, and countries at

esis, therefore, an exploratory work, drawing upon the relevant literature and our own meditation, was considered appropriate to provide insights into the process by which the different variables influence the equalization of relationships between developed and developing countries.[9]

As a result, we found that if cooperation between societies is to be mutually advantageous, it is essential that relationships should rest on reciprocity resulting from (1) a deliberate initial bargaining, unimpaired for any party by sorely urgent necessities; and (2) equal competitive opportunities for the parties, once the process is initiated. Noting that societies generally strive through the constant improvement of their strength for personal advantage and relative power, we hypothesized that if (1) or (2), or a combination of both, is absent, and to the extent that a full appreciation of the conditions of the less favored party is absent, the likelihood that the privileges and benefits going to the stronger will prevail over those going to the lesser in the system, is increased.

Thereupon, our interest was in gathering evidence about the Association of African and Malagasy States with the EEC, which could permit us to determine, in the light of this generalization, the nature of relationships within this Association. For this purpose two things have been studies:

1. The circumstantial factors which controlled the forma-

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earlier stages. The standards or criteria of this differentiation will become clearer in the course of the investigation.

9Throughout the exploratory study, we dealt with relations between the developed market economies and the developing countries. Developed centrally planned economies are a relatively recent phenomenon and their relations with the developing countries had been negligible until 1955. Although they have been growing steadily since then, they are of no relevance to the present essay, tion of the Association--namely, the parties' relative economic and other needs which led them to desire association, and their implications for the deliberate capacity of the parties in the negotiations.

2. The measures, if any, provided for mitigating the effects of the associated States' unfavorable position in the system.

The essay is therefore comprised of two parts followed by a general conclusion. Part One explains the derivation of our hypothesis. Part Two discusses the Association system in the light of this hypothesis.

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because (1) economic adjustment or competition does not take place in relations precluding the existence of a capital market and a price mechanism which determine their relative benefits to the parties; and (2) this essay centers around the Association of African and Malagasy States with the EEC, i.e., with a developed market economy.

PART ONE

THE EQUALIZATION OF RELATIONSHIPS BETWEEN DEVELOPED AND DEVELOPING COUNTRIES

CHAPTER I

THE INITIAL BARGAINING POWERS OF THE PARTIES

Of major influence in determining the nature of any agreement between individuals or societies are the necessities, economic and otherwise, which cause the parties to form relationships with each other. In this chapter, we shall examine the developed and the developing countries' respective needs for relations with each other, so as to draw out conclusions about their possible effects upon the bargaining power of each group and the nature of the resulting relationship.

The Case of the Developed Countries

Relations between developed and less developed societies have traditionally been explained in terms of the former's needs for export markets for surplus goods, investment outlets for excess capacity of capital, and raw material supplies. Political considerations have also been evoked as motivating forces, particularly since the last World War.

Export Markets and Investment Outlets

There is a view, dating from Simonde de Sismondi and Thomas Malthus in the first part of the nineteenth century, that foreign expansion is the way in which capitalism tries to save itself as it fails to keep production and consumption in equilibrium.[1] Karl Rodbertus, who carried this idea forward, argues that the inability of the system to satisfy the conditions of effective demand is due to a wrong distribution of income, because overinvestment of capital in productive goods leaves too little to be spent on consumption. Hence the necessity of foreign outlets for surplus goods and investment capital.[2]

John Stuart Mill adopted as a working hypothesis the falling rate of profit in the industrial countries resulting from population pressures, and regarded the overflow of investment capital into colonies as a principal countervailing factor. Mill believes that these countries would eventually reach the "stationary state," if no further technological improvements were made, "and if there were a suspension of the overflow of capital from those countries into the ~~ill~~-cultivated regions of the earth."[3]

Karl Marx, for his part, may have developed a line of thought which denies the absolute necessity of foreign trade to capitalism.[4] But he remarks that the system actually does expand because, with its unplanned nature, correct proportions are not maintained between the capital-goods and the consumption-goods

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[1]Sismondi, Nouveaux principes d'économie politique (2 vols.; Paris: Delauney, 1827), I, 104-109; Malthus, Principles of Political Economy ("Reprints of Economic Classics," 2nd ed. 1836 [New York: August M. Kelley, 1964]), pp. 314 et seqq.

[2]Rodbertus, Die Handelskrisen und die Hypothekennot der Grundbesitzer (Berlin: Schneider, 1858).

[3]Mill, Principles of Political Economy, ed. by W.J. Ashley (London: Longmans, Green and Co., 1926), p. 746.

[4]See E.W. Winslow, The Pattern of Imperialism (New York: Columbia University Press, 1948), pp. 132-38. The basic idea in fact began with J.B. Say, who held that supply creates its own demand and, conversely, there could be no overproduction necessitating resort to outside markets in order to keep the system func-

branches of the industry.

At the turn of the last century, John Hobson adopted the idea of underconsumption contained in the writings of sismondi, Malthus, Rodbertus and Marx. According to Hobson, the maldistribution of consuming power prevents the absorption of commodities and capital within the country and urges the "great controllers of industry" to find outlets for the flow of their excessive power of production and surplus capital.[5] The imperialists argue that new markets must be sought "in hitherto undeveloped countries, chiefly in the tropics, where vast populations lived capable of growing economic needs" which the imperialists could supply.[6]

As for the brekdown theorists, the radical neo-marxists, such as Rosa Luxembourg, foreign outlets are an inevitable necessity under enlarged or capitalist production for taking off the domestic market absolute surpluses of products which the wage-earners cannot absorb, and surplus capital which no longer yields sufficient profits at home.[7] V.I. Lenin and N.J. Bukharin, on their part, identify imperialism with capitalism.[8]

It may be argued that the views just exposed refer to a particular conjuncture of events in Europe and the world prior to the First World War; that the situation had since changed as a result of the emergence of new and urgent problems in the world, par-

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tioning (A Treatise on Political Economy, trans. by C.R. Prinsep ("Reprints of Economic Classics," reproduction of 1880 printing [New York: August M. Kelley, 1964]), pp. 132 et seqq.).

[5]Hobson, Imperialism: A Study (London: George Allen & Unwin Ltd., 1961), pp. 55, 81, 85.

[6]Ibid., p. 72.

[7]Luxembourg, The Accumulation of Capital, trans. by Agnes Schwarzschild (London: Routledge and Kegan Paul, Ltd., 1951), especially sec. 3.

[8]Lenin, Imperialism, the Highest Stage of Capitalism (New

ticularly after the Second World War. We had no longer the developed nations of Europe and their imperial outlands, which broadly functioned as a unity, but the world was divided into three groups of nations. One group comprises the countries of advanced market economies, whose inhabitants enjoy relatively high living standards. Another comprises the socialist countries. And a third included the first group's "colonial and ex-colonial" extensions, whose peoples yearned to raise their levels of living and clamored to escape from the status of economic dependence. The relevance, to this period, of arguments developed in connection with past relationships between the great European powers and their imperial extensions will become clearer if we consider some of the ideas advanced in the years after the Second World War.

The United Nations experts who reported in 1951 on measures for international economic stability pointed out that capital exporting countries have an interest in maintaining a steady volume of exports for foreign economic investment. The report stressed that the levels of employment in the advanced countries "depend partly on the production of these exports." If these countries "suffer from recession, maintaining the flow of the exports will help support employment."[9]

York: International Publishers, 1939); Bukharin, Imperialism and World Economy (New York: International Publishers, 1929).

[9] United Nations, Department of Economic Affairs, Measures for International Economic Stability, Report by a Group of Experts appointed by the Secretary-General (E/2156, ST/ECA/13)(New York, 1951), p. 27. In an earlier Experts' Report, the authors of the Report recommended that international equilibrium be attempted by the stabilization of domestic economies in the industrial countries, with programs of international measures designed to counter deficiencies or failures in the domestic full employment policy, failure of some countries to pursue such policy, and the special problems aroused by the developing countries (National and International Measures for Full Employment [E/1584][New York, 1949]).

Similar views were expressed at a conference held by the International Economic Association in 1961. Roy Harrod believed that "the developed areas would advance more rapidly if they exported more capital goods."[10] Bertil Ohlin pointed out that he had suggested in Sweden that the Organization for European Economic Co-Operation "should adopt a policy of making capital exports over and above any normal level to underdeveloped areas whenever excess capacity rose above a certain level. This would help to counter stagnation in OEEC countries and would be a useful item in a combination of methods."[11] According to Harrod the important thing is not curing recessions when they arise, but raising growth rates where demand is insufficient by increasing the export of capital goods. This means that the problem is not so much in curing recessions as in preventing their occurence. Thus, he argues that it is not acceptable that the recipient countries be supplied with capital goods during a recession, but then "experience a sudden ending of this supply when the recession is finished."[12] Indeed, since the rate of growth of international trade among developed countries is much higher than that of trade between these and the developing countries or among the developing countries themselves,[13] the expansion of the developing countries forms a dynamic advantage to florishing international trade, therefore assuring a greater expansion of the developed countries.

It may be remarked against these views that, since the last World War, the flow from the developed to the developing countries

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[10]Harrod (ed.), International Trade Theory in a Developing World (Proceedings of a conference held by the International Economic Association, Brissago, Switzerland, September 1-9, 1961 [London: Macmillan & Co Ltd, 1963]), summary record of the debate, p. 442.

[11]Ibid.

[12]Ibid., p. 443.

[13]United Nations, Department of Economic and Social Affairs, World Economic Survey, 1963--Part I (E/3908, ST/ECA/84)(New York, 1964), p. 8.

of private direct investment has been fluctuating erratically from year to year, and that of private lending very small by earlier standards. This tendency is often attributed to the following headings: (1) the growth in demand for capital in the industrial countries themselves, brought about by the post-war reconstruction programs and the subsequent full employment schemes pursued by all the governments concerned; (2) the recent achievement of convertibility of all principal currencies; and (3) the acceleration in the rate of technological advance and the increasing expenditure on research and development.[14] Further, the flow of private capital to the developing countries has been severely hampered by the supervening fact of independence in the former European dependencies in Asia and Africa. For the new nations tend to consider their right "freely to use and exploit their natural wealth and resources" as "inherent in their sovereignty."[15] Most of them have set up programs or plans of socio-economic development with investment priorities, which acted in many cases as deterrent to potential private direct investors abroad.

True, arguments to the effect that capitalist countries must develop export markets for surplus goods and investment outlets abroad to save their system, should have been shaken by now, as the governments of most of the highly industrial countries are demonstrating an obvious capacity to influence the level of demand at home. Yet despite the post-war contraction in the flow of resources from the developed to the developing countries, it can still be held that such exports should be produced in order to raise growth rates in the former or to counter deficiencies or

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[14] Ibid., pp. 8-9.

[15] This right was early affirmed in United Nations General Assembly Resolution 626 (VII), December 21, 1952 (A/2361: G.A. Official Records, 7th Session, Supplement No. 20).

failures in their domestic full employment policy. What this contraction may indicate is the relative rôle of capital exports in the present growth of the developed market economies. As to government inducements for private industrial and financial concerns in the developed countries to export to the developing areas of the world, and the official action itself in the flow of financial resources to these,[16] they can be explained in terms of the above objectives (raising growth rates at home, etc . . .) and of political considerations resulting from the prevailing international conjuncture. Before elaborating on this last point, there is another economic motivating force behind relations between developed and developing countries which we must examine--namely, the for-

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[16]In 1960, the Development Assistance Committee (DAC) countries--Australia, Austria, Belgium, Canada, Denmark, France, Federal Republic of Germany, Italy, Japan, the Netherlands, Norway, Portugal, Sweden, United Kingdom and United States--accepted the principle of income sharing on a global scale with a target for resource transfer of one percent of their national income. In 1962, the net flow of official and private financial resources from the DAC countries to developing countries was 1.02 per cent of gross national product, but it dropped to 0.88 per cent in 1966. In this year, contributions from the public sector had augmented by over 3.5 per cent over 1965; but private transfers were less by 12 per cent than in 1965. The decline is seen as a result of the generally unfavorable climate for investment in most of the developing countries ("Rapport annuel du Président du Comité d'aide au développement de l'OECD," Le Commerce du Levant, VIII [15 décembre 1967], 84-85). It should be noted that the DAC records the net flow of financial resources to developing countries, i.e., after deducting repayments of principal and repatriation of capital. However, no allowance is made of reverse flows of financial resources, from the developing to the industrial countries; no deduction is made of interest receipts and other investment income; and no credit is given for uncompensated transfers of ownership through nationalization (Organization for Economic Co-Operation and Development, Development Assistance Efforts and Policies, 1966 Review, Report of the Chairman of the Development Assistance Committee [Paris: OECD, 1966], pp. 27-28).

mer's need for the sources of raw materials in the latter.

The Need for Raw Materials

A very early view in this respect is expressed by Marx in his listing of the series of counteracting factors which check and even keep up the falling rate of profit in a capitalist system of production.[17] Marx in fact considers that the capitalists' investment in the cheapest materials through foreign trade is one of the factors responsible for the actual rise in the rate of profit.[18] But it was much later, toward the end of the nineteenth century, that it became widely admitted that the real value of the peripheral areas lay in producing cheap raw materials for European industries. In the midst of internal competition and the resulting fall in prices, profits and wages, cheap raw materials could cut down production costs and increase the rate of profit.

In the early twenties, the French Minister of Colonies, Albert Sarraut, stressed, in a report on the valorization of the French overseas domain, the potential colonial wealth and its ob-

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[17]Namely: (1) raising the intensity of exploitation; (2) depression of wages below their value; (3) cheapening the elements of constant capital (raw materials, etc. . , except labor which Marx calls "variable capital"); (4) relative overpopulation; (5) foreign trade; and (6) increasing stock capital (Marx, Capital, trans. by Ernest Untermann [3 vols.; Chicago: Kerr, 1909], III, 276-82).

[18]Marx, however, may not have seen that if there is no complete mobility of labor between countries, trade will not automatically take place, because the less advanced country will not accept to undertake with the highly industrialized one a transaction which is to her disadvantage. But if "the highly developed country owns the less developed, or if capitalists in the one have investments in the other, it is clear that the exchange might be force" (see Winslow, op. cit., p. 129).

vious importance to metropolitan industries.[19] Closer to us, the Paley Report, prepared for the United States President in 1952, attempts to estimate the materials needs of the United States and the rest of the non-communist world by 1975. It shows the interest the industrial countries would have in expanding the world production of raw materials.[20]

Yet it may be argued, from United Nations sources, that the recent trends in the volume and commodity pattern of the world trade point toward a growing insulation of the industrial, from the primary producing countries. This phenomenon is attributed to the following factors: (1) low income elasticity of demand for primary products, i.e., the fact that the ratio of expenditure on food, especially staple foods originating in tropical areas, to total expenditure does not grow proportionally to the rise in income; (2) regional economic groupings, which encourage the expansion of intra-trade and the members' own primary activities behind protective barriers through the imposition of customs duties and quantitative restrictions on imports of competing products (such as tariffs to protect domestic beet sugar); and (3) technological progress, with its increasing use of industrial substitutes (synthetics), natural substitutes and materials-saving engineering.[21]

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[19]Sarraut, La mise en valeur des colonies francaises (Paris: Payot, 1923).

[20]President's Materials Policy Commission, Resources for Freedom: A Report to the President (5 vols.; Washington: U.S. Government Printing Office, 1952).

[21]United Nations, World Economic Survey, 1963--Part I, pp. 13-16. See also, Ragnar Nurske, Patterns of Trade and Development (Oxford: Basil Blackwell, 1961), p. 23, and the review of Nurkse's list of factors, in A.K. Cairncross, Factors in Economic Development (London: George Allen & Unwin Ltd., 1964), pp. 195-97.

These arguments need some qualification: while the industrial countries are becoming somewhat self-sufficient in certain agricultural and mineral items, they are, on the other hand, becoming heavily dependent on imports of others, especially minerals.[22] But it remains that these countries at present supply from their own sources some 75 per cent of their total raw material requirements. Although the remaining 25 per cent include the greater portion of their requirements of certain strategic items (such as crude petroleum, bauxite, manganese ore, copper ore, tin ore, and others),[23] their imports of primary commodities from primary exporting countries are only about 3 per cent of their gross domestic product (2.8 per cent of GDP in 1962, with 1.3 per cent of GDP in the case of the U.S.A.).[24]

Moreover, in the long term, it is thought that, with diminishing returns and the eventual exhaustion of domestic natural sources of raw materials, the industrial countries will perforce be led to seek their supplies in the Middle East, South and South East Asia, Africa, and Latin America, i.e., in the developing countries.[25] If national economic policies pursued in these latter direct investment activity out of the commodity sector, a case will be made for aid programs from the United States, which is the large exporter of raw materials. While this "becomes a political or se-

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[22]United Nations, World Economic Survey, 1963--Part I, Tables 5B-1, pp. 114-15 and 5B-3, pp. 118-22.

[23]Ibid. [24]Ibid., Table 5-11, p. 82.

[25]See Eugene Staley, The Future of Underdeveloped Countries (New York: Harper & Brothers, for the Council on Foreign Relations, 1954), pp. 48-50; International Development Advisory Board, Partners in Progress (Washington: International Advisory Board, 1951), pp. 4-5, 51; Ohlin T. Mouson, International Resources and National Policies (New York: Harper & Brothers, 1959), Tables 38, p. 273, 59, p. 455, and 63, p. 473.

curity rather than an economic argument,"[26] one may well ask for how long could the developed countries maintain their industrial leadership if forced to depend on the material supplies of the United States. According to the Paley Report, the latter will need to import about 20 per cent of its total materials consumption by 1975. Technological progress, industrial substitutes, economies of raw material use, etc. . , could be evoked. But in this connection, it is remarked that, generally, "the scarcity and high price of a preferred material will lead to a somewhat more costly and less satisfactory substitution. The cumulative effect of many instances of rising raw materials cost would certainly act as a drag on the further development of productivity and living levels in the United States and other industrial countries."[27]

To sum up this investigation of the developed countries' need for the sources of raw materials in the developing countries; (1) the developed countries have a vital long-term interest in co-operating with the developing countries to support their future raw material requirements. It is in this connection that studies, such as the Paley Report, concerning future raw material requirements of the industrial countries of market economies, acquire special relevance. It matters little that the forcasts be perfectly accurate and valid; but to the extent that such predictions will influence private and public investment policies in the industrial countries,

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[26]Edward Mason, "Competitive Coexistence and Economic Development in Asia," in International Stability and Progress: United States Interests and Instruments (Background papers prepared for the use of participants and the final report of the Eleventh American Assembly, New York, May 2-5, 1957 [New York: American Assembly, Graduate School of Business, Columbia University, 1957]), p. 68.

[27]Staley, op. cit., p. 50.

one is led to draw conclusions as to the rate and pattern of growth of the developing countries, which the industrial countries will consider compatible with their own long-term progress.[28]
(2) In a short-run perspective, however, the industrial countries can make themselves less dependent upon the sources of raw material supplies in the developing countries--if forced into such a policy by a curtailment of these supplies--by drawing on their own sources. This may be at the expense of lower standards of living; but the very fact that they can do it under necessity undoubtedly limits their immediate needs for relations with the developing countries.

Political considerations arising from today's international conjuncture tend, however, to increase the developed countries' immediate concern for the sources of strategic raw materials in the developing countries. These considerations, already mentioned as a motivating force behind the transfer of public resources from the developed to the developing countries, are examined in the following section.

Political and Security Motives

With the emergence of the Soviet Union as a major world power after the Second World War and the birth of immature nations with the breakdown of the colonial system, the interest of the countries of developed market economies has been to promote a world order in which if the young nations are not aligned with them

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[28] Jacques Parizeau, "Les problèmes de l'aide extérieure," in Alfred Sauvy (ed.), <u>Le 'Tiers-Monde': sous développement et développement</u> ("Publications de l'Institut National d'Etudes Démographiques: Traveaux et Documents," Cahier No. 39 [Réédition du Cahier No. 27]; Paris: Presses Universitaires de France, 1961), p. 345.

they at least will not be aligned with their potential enemies. Thus the friendship and alliance of the developing countries have become a force which cannot be ignored in considering the security and leadership of the developed countries in world affairs. In this connection, a leading contemporary American economist, Jacob Viner, remarks that:

> The only factor which could persuade us to undertake a really large program of economic aid to the underdeveloped countries would be the decision that the friendship and alliance of these countries are strategically, politically, and psychologically valuable to us in the Cold War, that economic aid on a large scale can be relied upon to assure such friendship and alliance to us, and that the cost to us of a greatly enlarged program of economic aid would not be an excessive price to pay for these strategic gains.[29]

One may add that in securing the allegiance of the developing countries to its side, the West could deny the access of the Communist world to the sources of rare and vital raw materials in these countries, while securing at the same time its own access to these sources and developing smooth export outlets.[30]

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[29]Viner, "The Role of the United States in the World Economy," in Robert Lekachman (ed.), National Policy for Economic Welfare at Home and Abroad ("Columbia University Bicentennial Conference Series" [New York: Russell and Russell, Inc., 1961]), p. 209.

[30]Development aid is also often viewed by donor countries as a "sense of conscience", an obligation of the richer to assist in promoting the social and material welfare of the less favored as an act of solidarity and humanitarian altruism (Seymour J. Rubin, The Conscience of the Rich Nations: The Development Assistance Committee and the Common Aid Effort [London: Harper & Row, 1966], p. 19). Some economists have clearer consciences. In speaking of the United States interests in foreign economic assistance, Mason (op. cit., p. 64) explains that "government aid programs are devised and promoted in an administrative and political setting that is not very amenable to humanitarian considerations." (See also Viner's statement supra). Thus although it is

The cold war, however, has a different impact in different nations; and in many of those where it appears to assume some significance, people tend to think in terms of economic and social improvements and are indifferent to the issue of containment of communism as such.[31] In their yearning for modernization and their determination to set up as prosperous States--a phenomenon rightly described as a "struggle for power and for wealth as an instrument of power,"[32] the new nations tend to emphasis far-reaching government control of economic decision-making. Combined with anti-colonial and passionately nationalistic sentiments, such policies could be a matter of deep anxiety to the developed countries, inasmuch as they might impair these countries' control over the periphery, adversely affect their economic interests, and weaken their overall power in world affairs.

Besides, one should mention the mounting competition between the developed countries themselves for control over certain actions of the developing countries. Combined together, these competitions have dramatized the importance of the developing

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often proclaimed that the motive behind concern and action on the part of the developed countries in respect to the problems of the new countries emerges from the former's interest in promoting democracy and civil liberties and curbing the menace of totalitarianism, a concentration on recent events alone, points to a "curious contradiction" on the part of the developed countries which have not hesitated to provide economic aid and assistance to "the dictatorships of the right" (such as those of Central and South America, where the United States has long had a tradition of private investment), but have been reluctant to support "the dictatorships of the left," even though their methods had been pragmatic and clearly reformative in purpose and content (See Yusif Sayigh, "tamwîl al-inmâ' fî ad-duwal an-nâmiya," in al-mawârid al-mâliyya wa al-inmâ' fî lubnan (Proceedings of the Second National Conference on Development, Beirut, 29 March-1 April, 1967 [Beirut: nadwat ad-dirâsât al-inmâ'iyya, 1967]), p. 67.

[31]Hans Morgenthau, The Impass of American Foreign Policy (Chicago: University of Chicago Press, 1964), p. 300.

[32]Ibid., p. 248.

countries in world affairs and increased the developed countries' desire for co-operative action with them.

The Case of the Developing Countries

Let us now investigate the developing Countries' interests in relations with the industrial parts of the world.

One of the most striking features of this century is the great awakening of the less developed societies to their social and economic conditions. In specific cases, this phenomenon is traceable to the First World War. But the changes which resulted in what had come to be known as "the revolution of rising expectations" are mostly the product of major developments which have taken place during and after the Second World War: the acceleration in the movement of persons, the revolution in the communication of ideas through the radio, the movies, the press and other media, and a vigorous world economy. These factors have produced an ever-growing consciousness in traditional societies that misery is not the inevitable permanent lot of the poor, that chances of higher standards and of a better life exist, that progress is possible. "Poverty is old," says Eugene Staley, "but the awareness of poverty and the conviction that something can be done about it are new."[33]

With the pressure of increasing wants and in the wake of their widespread determination to improve the living standards of their peoples, the new countries became not only willing, but anxious as well to form or reformulate and widen contacts with the industrial countries. These needs arise from the imperatives of the traditional pattern of economies in the new countries and the capital requirements of accelerated economic growth.

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[33] Staley, <u>op. cit</u>., p. 20.

The Imperatives of Traditional Patterns of Economic Activities

It is well known that most of the developing countries produce a very limited variety of foodstuffs and raw materials for exportation. Over half of the major primary producing countries derive more than 70 per cent of their export proceeds from three commodities, and about one third derive more than 80 per cent in this way.[34] Significantly, almost all of these exports must perforce find outlets in highly industrial countries; for given the relatively unindustrialized state of their economies, the developing countries themselves are not in a position to provide markets on a large scale for primary commodities. International research clearly shows that exports of primary products to the industrial countries "are now and, from all indications, will long continue to be a primary source of external financing for the less-developed countries."[35] Such dependence on commodity exports will, however, decrease as the developing countries increase the output of the other sectors of their economies, and develop export markets for certain types of manufactures. But this cannot be achieved in the short run and, in the process, a strategic and in the case of a good many countries a preponderant rôle will be played by raising export earnings in stimulating the growth of the economy.

Problems of Capital Formation and the Need for External Resources

It is perhaps fair, before we go on to look at the need for

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[34]United Nations, World Economic Survey, 1963--Part I, p. 173.

[35]France, "Memorandum Concerning certain Items on the Agenda of the United Nations Conference on Trade and Development," in United Nations, Proceedings of the United Nations Conference on Trade and Development, 1964, Vol. VI: Trade Expansion and Regional Groupings--Part I (E/CONF. 46/141, Vol. VI)(New York, 1964), p. 20.

external resources as a force necessitating relations with the richer countries, that we should do justice to the place of the developing countries' domestic resources in the financing of their development. For in dramatizing the importance of international aid, attention is often distracted from the predominant rôle of domestic resources in this respect. It is perhaps true to say that the developing countries supply internally from 66 to 75 per cent of their total capital requirements for productive purposes, with the rest coming from industrial countries; that these capital imports form, on the average, not more than 3 to 4 per cent of their gross domestic product, and only 0.66 per cent of the gross domestic product of the industrial market economies.[36]

Yet, although the developing countries must and can rely primarily on domestic capital to develop, recourse to foreign savings is inevitable for a number of reasons.

Firstly, where the commodity export sector plays a predominant rôle in stimulating the growth of domestic income and output, external resources will be essential because (1) over-all export earnings may fall short of the amounts needed by the country for the financing of new investment and, in the case of many primary producing countries, for supporting employment and local demand; and (2) erratic ups and downs both in the volume and value of exports cannot fail to jeopardize the economic expansion of the developing country.[37]

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[36]See Sayigh, op. cit., p. 36. The author remarks (p. 62) that, although the flow of resources between developing countries is very low, there is one case, rarely noted in international research, which calls for special attention, namely Kuwait. Between 1962 and 1966, the flow of investment capital from this country to Arab countries reached $496 million, in the form of loans from the General Development Reserve ($350) and the Kuwait Fund for Arab Economic Development ($146 million).

[37]Some countries, such as Kuwait, Iraq, the Federation of

Secondly, in most of the developing countries, even where the export sector does not play the rôle of a primary stimulus to the economic growth of the country, capital from abroad is required for the financing of (1) the physical content of investment, i.e., capital equipment, intermediate goods, and raw materials; and (2) human resources, i.e., the highly technical and managing skills of a modernizing economy.[38]

Thirdly, there is no doubt that, with over half of the developing countries saving less than 13 per cent of their gross domestic product and the rest saving below 20 per cent, whereas very few of the industrial countries save less than 20 per cent of their gross domestic product, the net growth rates of such countries will be low, and as a result, the disparity in living standards between the rich and the poor countries will go effectively unchecked. The United Nations, in a report devoted to the financing of economic development, expresses the opinion that "on the basis of the incremental capital-output ratio common to a large majority of the developing countries, a 13 per cent rate is unlikely to sustain a growth rate of more than 4 per cent a year. Such a rate would be inadequate not only in relation to the 5 per cent target that has been set for the Development Decade, but also in relation to current and prospective rates of population increase, which would require a 3 per cent growth rate merely to prevent a decline in per capita income."[39]

Malaya, Mauritius, the Philippines, Tanganyika, and Venezuela, derive export surpluses from extractive industries or plantations held by foreign investors.

[38]United Nations, World Economic Survey, 1965--Parts I and II (E/4187/Rev. 1, ST/ECA/91 - E/4221/Rev. 1, ST/ECA/92)(New York, 1966), p. 38.

[39]Ibid., p. 18.

Raising current rates of domestic saving and productive investment to satisfactory levels from internal sources would be possible if (1) peoples are induced, or "forced", to save; and (2) savings are canalized into developmental investment within the developing country. As is well known, however, efforts aimed at raising current rates of domestic saving and productive investment in developing countries require drastic changes in the existing economic and social structure of so many countries, which would arouse opposition from vested local and foreign interests. Where circumstances tend to safeguard the economic and social status quo, the country will inevitably be led to augment its resources by drawing on the savings made in industrial countries. Where, as a result of overall reforms in the structure of the developing country, potential capital could be mobilized at a higher rate of activity, loans and grants from abroad will still be needed, if only to balance the prospective deficit in domestic investment (or in exports over imports if the equation relates to the balance of payments), in conjunction with some target rate of growth over the period of the plan.[40]

Estimates have been attempted of the developing countries' need for external capital, whether by loan or by grant, if their standards of living are to ameliorate at predetermined rates. The report on Measures for the Economic Development of Under-Developed Countries shows that domestic savings of the developing countries--including mainland China--in 1949 fell short of the Experts' estimates (i.e., $19,134 million) by $13,849 million; and "that a 2 per cent increase in the per capita national incomes cannot be brought about without an annual capital import well in excess of

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[40]Cairncross, op. cit., pp. 52-53.

\$10 billion."[41] More recently, Paul Hauffman put the inflow of resources from the industrial to a group of developing countries--excluding mainland China--necessary to raise per capita incomes by 2 per cent a year at \$7 billion annually.[42]

The meaning of these calculations and the underlying assumptions which permitted their execution need not concern us. These estimates represent broad orders of magnitude of what is involved--though the order obtained in each case differs with the asumptions behind each calculation. For a long time, a substantial volume of foreign capital will be needed by some developing countries, mainly to counteract the adverse effects of fluctuations in export proceeds on their economic development; by others merely to remove bottlenecks limiting economic growth--such as foreign exchange obstacles to the financing of technical knowledge and equipment; but by most developing countries, to supplement domestic private and public savings, so that they may achieve higher rates of investment than these savings alone would permit. Thus could they restrain the ever-widening gap in living standards with the industrial countries.

Many developing countries, conscious of the benefits they stand to gain from increased capital investments in accelerating their economic development, have established guarantees and incentive plans by virtue of investment laws to attract foreign capital. Such plans provide special exchange privileges in countries which are desirous of attracting capital but cannot institute a general

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[41]United Nations, Department of Economic Affairs, Measures for the Economic Development of Under-Developed Countries, Report by a Group of Experts appointed by the Secretary-General (E/1986, ST/ECA/10)(New York, 1951), p. 79.

[42]Hauffman, 100 countries: One and One-Quarter Billion People (Washington, D.C.: Committee for International Economic Growth, 1960), discussed by Cairncross, op. cit., pp. 53-54.

relaxation of exchange restrictions, fiscal incentives--the so-called tax-holidays--and other inducements. Where the developing country combines elements of socialist and nationalist philosophies, to support its insistance on safeguarding the nation against excessive domination by foreign interests, an acceptable compromise has been found between such aspirations and the urgent need for foreign capital in the form of companies with mixed capital between the national government--directly or through semi-autonomous agencies--and foreign investors.

National legislation on foreign investment may have a unilateral character and present an ever-possibility for alteration. But the mere fact that it is granted indicates that there is a recognition, in the developing countries, of the need for foreign capital to increase the rates of economic growth at satisfactory levels.

Conclusion

We may now draw up a few conclusions from the analysis in this chapter of the developed and developing countries' need to establish relations with each other.

A major conclusion would be that, in our world, interdependence has come to have an increasing impact on the domestic affairs of nations. The foregoing analysis clearly shows, however, that interdependence operates in varying degrees in the case of nations at different stages of economic and political growth. For the developed countries, relations with the less developed parts of the world do not play at present a leading rôle in their economic development. The developed countries, in fact trade more with each other than with the developing countries, obtain three quarters of their raw material requirements from each other, and offer investors many opportunities for growth with full capital protection and certainty of good returns. What interest the industrial countries can have in relations with the developing countries arises mainly from speculations regarding their long-term raw material requirements. By contrast, the developing countries have immediate and vital needs for such relations. It is in highly industrial markets that these countries must find outlets for most of their commodity exports, earnings of which assume a strategic rôle in many countries and a predominant one in some. Further, most of the material and human capital needed for initiating and accelerating the process of economic growth in the developing countries must come from the more developed.

This may suggest that in relations between developed and developing countries the bargaining power of the latter can be much impaired by their immediate and pressing needs. Unless relationships are accompanied by a complete appreciation of the position of these countries, agreements entered into under economic and other necessities may seem to be unjust. In fact, with nations, as is all too often the case, constantly competing for increased strength and relative power, the privileges and advantages resulting from agreements concluded among unequal parties tend to be biased in favor of the stronger. The disproportion is more likely where such agreements are serving complementary rather than identical interests. The former "are by definition different in substance and their comparative assessment is likely to be distorted by subjective interpretation. A marked superiority in power is bound to add weight to such interpretations."[43]

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[43]Hans Morgenthau, <u>Politics among Nations: The Struggle for Power and Peace</u> (3rd ed.; New York: Alfred A. Knopf, 1961), p. 185.

The bargaining power of the developing countries is, however, greatly increased nowadays by the competitive struggle with the weapons of economic and technical assistance in these countries. The competition is between the developed countries of market economies and those of centrally planned economies--and increasingly among the different parts within each group--for control over the minds and actions of the so-called uncommitted nations, or denying control to the other side. With this new factor in international relations, the industrial countries are inevitably led to adopt conceding attitudes in their relations with the developing countries, while trying, as far as possible, to impose on these--through propaganda, subtle political, economic and monetary devices--the kind of framework which offers a power basis for preserving a compatible economic and political order.

Thus, with political factors acting in favor of the bargaining power of the developing countries, and assuming that "men are commonly good judges of their own interests,"[44] there will be good cause prima facie for saying that these countries will be entering into mutually advantageous relations with the highly developed countries. But more is needed. It is not a question merely of initial bargaining powers if relationships between nations are to equalize. A great deal depends on how human and material resources are distributed among the parties, once relationships are formed. It is to this issue of factor proportions that we must turn.

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[44]Glanville William (ed.), Salmond on Jurisprudence (11th ed.; London: Sweet & Maxwell, Limited, 1957), p. 384.

CHAPTER II

THE COMPETITIVE OPPORTUNITIES OF THE PARTIES

The conditions under which competition takes place, once relations between developed and developing countries get under-way, concern (1) the parties' levels of human and material advance; and (2) the pattern of their economies. The effects of these factors upon the equalization of relationships are examined in this chapter.

Effects of the Levels of Human and Material Advance

Given the tremendous and growing disparity in factor proportions between the industrially advanced countries and the developing ones, it is important to know in what direction--toward or away from equality--relationships between these countries would be moving if left to the free play of market forces, and how would planned and applied interferences affect the movement.

Gunnar Myrdal, who focused on the mechanism of national and international economic inequality, argues against the notion of stable equilibrium used in explaining changes in a social system. "The system," thinks he, "is by itself not moving towards any sort of balance between forces, but is constantly on the move away from such a situation. In the normal case a change does not call forth countervailing changes but, instead, supporting changes, which move the system in the same direction as the first change but much further."[1] And Myrdal proceeds to say that unless coun-

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[1]Myrdal, Economic Theory and Under-Developed Regions (Lon-

tervailing changes are introduced through public interferences with the intention of stopping the movement, a social process within a community is bound to have cumulative effects causing increasing rather than decreasing inequality between regions. And this is so not only because the regions offered initial inequalities in economic and social factors (e.g., demand, investment and production, the flow of entrepreneurial ideas, social attitudes, and so on), but also because the accident was successfully started in one place rather than another. "Therefore," says Myrdal, "the ever-increasing internal and external economies--interpreted in the widest sense of the word to include, for instance, a working population trained in various crafts, easy communications, the feeling of growth and elbow room and the spirit of new enterprise--fortified and sustained their continuous growth at the expense of other localities and regions where instead relative stagnation or regression became the pattern."[2]

In widening the scope of this reasoning, from the individual country to the whole "community" of nations, it is found that, as between regions within a country, the uncontrolled market mechanism tends to increase rather than to decrease inequalities between nations; and this is the more so where nations offer a wide disparity in their levels of human and material advance.

With respect to commercial exchanges, Myrdal believes that a free expansion of markets often strengthens primarily the the advanced countries, "whose manufacturing industries have the lead and are already fortified by the surrounding external economies, while the underdeveloped countries are in continuous danger of seeing even what they have of industry and, in particular

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don: Gerald Duckworth & Co., Ltd., 1957), p. 13.

[2]Ibid., p. 27.

small scale industry and handicrafts, priced out by cheap imports from the industrial countries, if they do not protect them."[3]

In developing countries where an industrial structure is emerging behind protective policies, attempts to export manufactures to the old industrial centers in the world would inevitably result in inequitable transfers if the industrial production of these countries, "instead of being stimulated and guided by a careful organization of international trade in manufactures," were left "to its own devices under a policy of laissez-faire and laissez-passer."[4] In fact, with free competition, consumers in the industrial countries will be choosing products originating in other industrial countries, even though an equivalent item could be offered by the industrializing countries. The preference can be explained not only in terms of consumer prejudice in industrial countries in favor of the traditional producers, but also by the frequent inefficiency and inability of the developing countries to organize the necessary promotion campaign on the same scale as the industrial countries. If, then, the developing countries decide to sell their product at a lower price, they could do so only by means of export subsidies, state or private, or by substantially lowering their wage level below that of the industrial countries. In the former case, there will be a transfer of capital to the developed countries and, "although not so obvious, it is none the less real in the latter. This shows clearly the inequitable and uneconomic nature of such a commercial transaction, which was in-

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[3]Ibid., pp. 51-52. See also, Myrdal, Rich Lands and Poor (New York: Harper & Brothers, 1957), p. 52.

[4]France, "Memorandum Concerning certain Items on the Agenda of the United Nations Conference on Trade and Development," p. 23.

tended to apply to trade between industrialized countries, is to be the rule in trade with the developing countries."[5]

In regard to capital movements, let us first say that where policy interferences in developing countries apply purposive restrictions on exchange convertibility and capital repatriation, and subject investment activities to an over-all development strategy, private potential investors abroad would shun such countries. Indeed, the more developed countries, with their accelerated technological progress, offer today many opportunities which combine great growth prospects for capital, together with security.

Suppose then that, as a result of a bilateral or multilateral arrangement, capitalists from industrial countries were allowed to freely chose and own investment in the developing countries. In this case, private capital would embark where it can yield the relatively highest net income. The developing country may contemplate a stronger domestic manufacturing sector, but private investors would, on the whole, engage in mining or plantations.[6] As may be expected, the rewards of a transaction carried on between the developing countries and the industrial countries whose capitalists own the investment, will be biased in favor of the latter. For the products exchanges will not represent the same amount of labor, because producers on each side were not drawing upon the same homogenous and mobile labor supply.

Further, if exchange controls and profit restriction were completely relaxed or minimized, the amounts of capital repatriated would be considerable. For foreign economic enclaves in underdeveloped countries are generally integrated more fully in the home economies than in the countries where they are operating.[7]

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[5] Ibid., pp. 23-24. [6] Sayigh, op. cit., pp. 70-71

[7] Myrdal, Beyond the Welfare State (London: Gerald Duckworth & Co., Ltd., 1960), p. 149.

Under the same conditions, indigenous capitalists would be exporting their capital; and the banking system would be siphoning off domestic savings into the richer countries, where capital is relatively more secure. In fact the generally poor infrastructure of the developing country, as well as non-economic factors, such as political instability and uncertainty, traditional attitudes to investment in certain sectors, especially in industry, and a limited supply of entrepreneurial ideas,[8] combine together to discourage investment in developing countries. As a result, the need for capital in these countries does not represent an effective demand in the market.[9]

It is worth-while to note, in this connection, that the outflows of short-term funds from Latin America and the overseas franc area between 1952 and 1961 have been particularly large. According to estimates produced by the International Monetary Fund, reported private short-term capital movements from developing countries and net errors and omissions in their balances of payments (suggesting an unrecorded outflow of capital from the developing countries) amounted to $3,483 million in the ten years 1952-1961. It is further believed that capital movements taking the form of non-repatriation of export proceeds, under-invoicing exports or over-invoicing imports (though imports may also be under-invoiced to avoid customs duties), purchases of foreign exchange outside

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[8]See Sayigh, "Government Economic Policies and Inducements for Capital Formation and Investment in Industry," in Capital Formation and Investment in Industry (A report of the International Conference on Problems of Capital Formation and Investment in Industry, Istambul, August 6-25, 1962 [Istambul: Economic and Social Studies Board, 1963]), pp. 389-92.

[9]Myrdal, Economic Theory and Under-Developed Regions, p. 53.

official markets from foreign tourists and others, may not even be reflected in the residual item. The Fund's 1963 annual report in fact points out that:

> The recent rise in the flow of total financial resources from the industrial countries to the less developed countries appears to have been offset, to some extent, by increased outflow of domestic capital from these countries which in some instances has had the character of capital flight.[10]

Let us now consider the second question raised in this chapter--namely, the effects of the pattern of economies on the equalization of relationships between developed and developing countries.

Effects of the Pattern of Economies

The traditional pattern of production in the developing countries has generally been for specialization on a narrow front--raw materials or tropical agricultural products, in which these countries are thought to enjoy a comparative advantage. In fact, the financial and technical assistance which the developing countries receive from the industrial countries is, even nowadays, often directed toward increasing their production of primary commodities for exportation. The question for analysis is whether the developing countries, as primary producers, can expect to reap proportionate benefits from their productive efforts as compared with the benefits going to the industrial countries with which they trade.

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[10] International Monetary Fund, "Flow of Private Capital from Developing to Developed Countries," in United Nations, Proceedings of the United Nations Conference on Trade and Development, 1964, Vol. V: Financing and Invisibles, Institutional Arrangements (E/CONF. 46/141, Vol. V)(New York, 1964), p. 352.

Raúl Prebisch dealt with this question in his 1950 report on the economic development of Latin America. Prebisch argues that in the nineteenth century the difference between the industrial countries and the primary producing regions was not particularly great, and under these conditions, it was not necessary for the latter to attempt to industrialize, since they could share in the rewards of technological progress in the industrial countries through international trade. In the twentieth century, the split in benefits was no longer equal, and even appeared to be biased against the primary producing countries, because these had not kept pace with the rapidly advancing industrial countries.

Arguing from United Nations data on terms of trade between industrial and primary producing countries, Prebisch states that "technical progress seems to have been greater in industry than in primary production of peripheral countries."[11] The result should have been a relative fall of the prices of industrial products to commodity prices. If this had been the case, "the countries of the periphery would have benefited from the fall in prices of finished industrial products to the same extent as the countries of the centre, so that the benefits of technical progress would thus have been distributed throughout the world."[12] But what actually occurred is that the terms of trade had moved so that "in the centre the income of entrepreneurs and of productive factors increased relatively more than productivity, whereas in the periphery the increase in income was less than productivity."[13] Thus,

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[11]United Nations, Economic Commission for Latin America, _The Economic Development of Latin America and its Principal Problems_, Report by Raúl Prebisch (E/CN.12/89/Rev. 1)(New York, 1950), p. 8.

[12]Ibid..

[13]_Ibid_., p. 10.

"while the centres kept the whole benefit of the technical development of their industries, the peripheral countries transferred to them a share of the fruits of their own technical progress," a phenomenon which Prebisch tries to explain in terms of a difference in price flexibility (or rigidity) between industrial and primary producing countries. In the former, prices are pushed up in prosperity and held up in recession by highly organized trade unions. In the latter, this mechanism is not possible because of the absence of organization among the workers.[14]

In conclusion, Prebisch maintains that, with international trade conducted along the lines of the traditional law of comparative cost, specialization as primary producer would nowadays represent a comparative disadvantage.

Myrdal, though reasoning differently than Prebisch, had reached a similar conclusion. Myrdal in fact ascribes the unequal relationship between industrial and primary producing countries to differences in demand elasticities for primary commodities and for manufactures. As the former, especially agricultural products of tropical areas, confronted over time an inelastic demand in addition to instability, while no equivalent demand limitations tended to confront manufactures, the trend has been toward the deterioration of the terms of trade for primary producers, i.e., for the relative fall of prices of primary commodities to the prices of industrial products. As a result, the industrial countries could experience steady progress and enrichment, while the primary producing countries underwent stagnation and impoverishment.[15] Indeed, Myrdal argues that while the traditional theory of interna-

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[14] Ibid., p. 13.

[15] Myrdal, An International Economy (New York: Harper & Brothers, 1956), especially chaps. iii, v and xiii.

tional trade suggests that trade starts a movement toward income equalization, what trade between industrial and primary producing countries actually initiates is "a cumulative process towards the impoverishment and stagnation of the latter."[16]

The Prebisch/Myrdal conclusions are not, however, generally shared.[17] Proponents of the "comparative advantage theory" maintain that a country stands to gain economically by directing its productive efforts along lines in which it has the greatest comparative advantage, i.e., in which it is relatively most efficient. This specialization will achieve a more efficient use of productive forces in the world, because forces will come to be allocated so as to yield the greatest output per given resource outlet, "making it possible to maximize real income for the world as a whole, and for each country within the trading network."

The criticism of the basic static assumptions underlying this theory (it assumes full employment and does away with balance-of-payments problems and transitional inflationary and deflationary gaps) will not be offered here. In fact, we admit our incompetence to do so. Suffice it to say, however, that, as the world really stands, compliance with the distates of the law of comparative advantage is likely to cause unindustrialized countries, with their limited productive forces (capital goods, labor productivity, technological know-how, and so on) to remain producers of raw materials and certain tropical foodstuffs, which they will trade with manufactures produced with relative efficiency by highly industrialized countries. Yet it is widely accepted today that the prices of primary commodities, and especially tropical staples, tend to de-

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[16] Idem, Rich Lands and Poor, p. 101.

[17] See, e.g., Gottfried Haberler, International Trade and Economic Development (Cairo: National Bank of Egypt, 1959).

teriorate relative to manufactures. Some economists argue against any systematic tendency of the terms of trade to move against or in favor of primary producers.[18] Even then, one may say, the uncertainties arising from wide fluctuations in earnings from primary commodities have often hampered the development programs of less developed countries, which rely on such earnings for stimulating growth.

Obviously, if permanent solutions to the problems of primary commodities were found in such a way as to prevent instability in export proceeds and secure reasonable remunerative prices, there would be nothing particularly alarming for primary producing countries to specialize on a narrow range of exports. As to the long term danger of cheaper substitution, for price or technical reasons, it is pointed out that the function of a synthetic product so far has generally been "to supplement an inelastic natural supply and meet rapidly expanding industrial requirements rather than to displace the natural products altogether."[19] And in any case, eliminating rigidities in the production structure of the developing countries will enable them to respond to changes in supply/demand relationships, by progressively shifting out of stagnating or declining lines of export toward new and expanding ones.

However, despite evidence today of a general recognition of the problems of stabilization of international commodity markets, effective and permanent global arrangements for correcting sharp upward and downward fluctuations in the volume and value of commodity exports and for ameliorating their prices at optimum lev-

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[18] _Ibid._, p. 23.

[19] Cairncross, _op. cit._, p. 216.

els, are yet to be agreed.[20] There has been no lack of literature, so far, but singularly little action. Indeed, the position of many industrial countries may be "expressly motivated by a concern to allow market forces to have free play, as far as this is possible."[21]

In the circumstances, the arguments and counter-arguments exposed above may represent "ideals." They are opposed, yet not irreconciliable. In the short run, concentration upon primary commodities for exports may seem justifiable for a good many developing countries, in order, e.g., to finance imports of capital e-

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[20]Fluctuations in international commodity markets are not due only to disruptive factors on the demand side (such as low income elasticity of demand for primary products, use of substitutes, national stabilization schemes as a means of holding supplies on the domestic market stable); but also to the very nature of the production processes on the supply side: large numbers of relatively small producers, whose investment or planting decisions are taken much earlier, sometimes years before, let alone the unpredictable effects of forces of nature (weather, pets and disease, and others)(United Nations, World Economic Survey, 1963--Part I, p. 40).

[21]France, "Memorandum Concerning certain Items on the Agenda of the United Nations Conference on Trade and Development," p. 21. The concern was again expressed at the second session of the United Nations Conference on Trade and Development in New Delhi, 1968, particularly by the German and Scandinavian representatives, who made it clear that commodity prices should be left to the free forces of supply and demand (See Le Commerce du Levant, 10 février, 1968, p. 1).

Note that international agreements of limited duration have been concluded, most notably in the post-war period. These, however, were limited to products, namely wheat, sugar and tin, in which the industrial countries are major producers or investors. In 1962, an agreement was reached between virtually all producers and major importers of coffee, an item in which the industrial countries are neither major producers nor major owners. Lately, negotiations have been taking place between 14 leading producing and consuming countries with a view to concluding an international agreement on this product, but came to a failure in December 1967, "par suite des réticences américaines, l'Adminisquipment and technical assistance. In the long run, however, what would be rational for these countries is to increase productivity in agriculture, so as to enlarge the market for industrial products, and to expand industrial production for domestic (foreign-exchange-saving activities) and external (foreign-exchange-earning activities) markets.

In the process, the developing countries would greatly improve their competitive position vis-à-vis the more developed, if the social and political tensions and conflicts existing within and among themselves were eradicated or, at least, minimized.

On the one hand, political events often suggest that the building of nation-states, the desire for territorial security, personal animosities, deep-rooted tribal antagonisms, and ideological differences are powerful influences on the governments of the developing countries. S. Farajallah, who studied the existence and evolution of the Afro-Asian bloc in the United Nations, points out in one long sentence that these "éléments de caractère objectif et subjectif. . . fruit d'une longue et pénible histoire et qui, habilement exploités par les Grandes Puissances, interviennent pour fragmenter cette entité géo-politique en gestation que constitue le monde afro-asiatique et la réduire, pour le mieux, à des structures régionales plus ou moins limitées et instables si, au pire, ils ne la pulvérisent pas en une multitude de 'micro-nations' qui revêtent fièrement la forme d'Etat miniature farouchement jaloux de leur indépendance nominale fraîche-

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tration de Washington ne souhaitant pas, dans une année électorale, agir contre les voeux des intérêts privés américains en la matière" (<u>Le Commerce du Levant</u>, 31 janvier, 1968, p. 5).

ment acquise à une époque où seuls les grands ensembles ont une chance de survie et de progrès."[22] The Afro-Asian bloc, thinks Frajallah, is not an end in itself, but a diplomatic instrument for satisfying the individual needs of its members in the present international conjuncture. The bloc's objective is not "un objectif communautaire," but a conversion of individual objectives, and this inevitably multiplies the centers of decision-making in the "Third World."[23]

A specialist of the dynamics of African societies, French sociologist Georges Balandier, further points out that colonization did not have the same significance to the colored élites of British colonization and those of French colonization. Says he:

> Les structures, les contextes culturels, les genres de vie et les modes de pensée résultant de l'action coloniale restent fortement enracinés dans la chair et l'esprit des pays africains; même après l'Indépendance, c'est sur la base d'une telle constatation que B. Boganda, maître maintenant disparu de la République centrafricaine, fondait son projet de création des "Etats unis de l'Afrique latine." De même, MM. Sékou Touré et Nkwamé Nkrumah ont pu découvrir, à l'occasion de leurs premiers entretients en tant que chefs d'Etat, combien des évolutions divergentes contrariaient singulièrement leurs efforts d'union.[24]

The developing countries did, however, manifest a remarkable cohesion on certain issues, notably on colonialism and racial discrimination. But racial discrimination, especially as applied

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[22]Samaan Boutros Farajallah, Le groupe afro-asiatique dans le cadre des Nations-Unies (Genève: Librairie Droz, 1963), pp. 413-14.

[23]Ibid., p. 414. One may cite, in this respect, the lack of unity displayed by the group of 77 developing countries at the second United Nations Conference on Trade and Development (1968). These countries were unable to preserve their unity on any other approach than that reached at their Algiers meeting in October 1967.

[24]Balandier, Sociologie actuelle de l'Afrique noire (2ème éd.; Paris: Presses Universitaires de France, 1963), p. 13.

in South Africa and Rhodesia, is condemned by almost all nations in the world, and the cohesion of the developing countries on this issue must be indisputable. Further, the quasi-total cohesion achieved on the affirmation of the right of peoples for self-determination, has seldom been complete in so far as the content of decolonization was concerned; it has varied in relation to the interests of the Great Powers which were able to exert heavy pressures over the smaller nations of Africa and Asia according to the interests involved. The ex-Italian colonies, the Congo, North Africa, Cyprus, and the Middle East are the most striking examples.

There is, on the other hand, a complex array of disruptive forces <u>within</u> the developing countries which adversely affect their competitive opportunities in relation to the more developed ones. Among these forces three stand out: cultural heterogeneity, the multiplicity of overlapping and competing political groups, and tribalism. This latter is indeed a virile source of national disintegration and tension. It does not only provoke intercountry tensions, especially in Africa where the boundaries of the present States were drawn in colonial times without regard to ethnic composition, but, as already stated, internal conflicts as well, for tribal groupings have not yet found a proven basis for national cohesion.[25]

Conclusion

The discussion in this chapter gives support to the conclu-

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[25]Tom F. Mboya, "Tensions in African Development," in <u>Restless Nations: A Study of World Tensions and Development</u> (Papers presented at a conference organized by the Council on World Tensions, New College, Oxford University, August 28-September 1, 1961 [New York: Macfadden Books, 1963]), p. 44; See also, Rupert Emerson, "Nation-Building in Africa," in Karl W. Deutsch, <u>Nation Building</u> (New York: Atherton Press, 1963), pp. 95-116.

sion that in so far as arrangements between developed and developing countries (1) embody inequality in competitive opportunities--i.e., prevailing differences in levels of socio-economic development and unequally advantageous patterns of production; and (2) effective solidarity between developed and developing countries, and among and within the developing countries themselves is absent, such arrangements will tend to work toward a cumulative process biased against the less developed.

The factor of opportunity must be emphasized. In viewing relations between the developed and less developed parts in the world as a product of the process of economic growth, it is significant to note that in their historic nineteenth century development, the now industrial countries did not confront competition already existent outside their economy. In 1885, Jules Ferry described colonial policy as "the offspring of industrialization."[26] The industrial countries of Europe and the peripheral regions of their world economy broadly functioned as a unity; and, as S.H. Frankel points out, it was "by drawing on ever new natural resources," that these countries could, for a generation before the First World War, accumulate capital surpluses "at a rate never previously surpassed, which made them the bankers of the world," and enabled them "to reduce the cost of their accustomed livelihood."[27]

By contrast, the developing countries today must integrate

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[26]Ferry, Le Tonkin et la mère patrie (Paris, 1890), quoted in Henri de Brunschwig, French Colonialism, 1871-1914, trans. by William Glanville Brown (London: Pall Mall Press, 1966), p. 83.

[27]S. Herbert Frankel, The Economic Impact of Under-Developed Societies (Oxford: Basil Blackwell, 1953), p. 9.

into a structurized international economy largely controlled by the great industrial powers. Naturally, solidarity among the developing countries can act as a bargaining force in their dealings with the industrial parts of the world. But these countries present themselves as a series of ill-connected rural communities. Not only do they control smaller economic spaces than the industrial countries, but they are on top of this greatly weakened by their particularism.

For the rest, the world community does not enjoy that cultural, ethical, and institutional unity, which within a fairly homogenous nation works as a basis for mutual human solidarity and decreasing inequality. In their diversity, nations--deliberately or not--tend to devise their policies from the viewpoint of national interests rather than of commonly felt international ones. For in politics the nation and not mankind is the elemental fact. "The concept of mankind," wrote Myrdal, "is bleak, abstract, and empty of concrete emotions to most people, compared with the concept of the national state."[28] Thus, nations are not interested in a general equilibrium, and each one strives to achieve a generous margin in its own favor.[29] This quest for relative power is not a new phenomenon.[30] Morgenthau describes it as "universal in

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[28]Myrdal, An International Economy, p. 324.

[29]John Maynard Keynes, The General Theory of Employment, Interest and Money (London: Macmillan and Co. Limited, 1936), p. 382; Nicholas John Spykman, America's Strategy in World Politics (New York: Harcourt, Brace, 1942), p. 23.

[30]See Niccolò Machiavelli, The Chief Works and Others, trans. by Allan Gilbert (3 vols.; Durham, North Carolina: Duke University Press, 1965), I, 206; Thomas Hobbes, Leviathan (Reprinted from the edition of 1651 [1st ed. 1909; Oxford: Clarendon Press, 1965]), p. 75; M. Quatremère (ed.), Les Prolégomènes d'Ebn Khaldoun (3 vols.; Paris, 1858), I, 71; Herbert Spencer, Social

time and space and is an indeniable fact of experience."[31] In fact, much of modern political thought explains relations between individuals and societies in terms of a strife for power--economic, cultural and political. The latter is central to the tradition of Realpolitik. It is man's ability "to control the minds of other men and mold their actions according to his will."[32]

On the basis of the investigation carried out in this Part of the essay, it may now be possible to develop a hypothesis about the equalization of relationships among nations. Remembering the assumptions which were basic to our exercise, we may say that if co-operation among nations is to be mutually advantageous, it is essential that relationships should rest on reciprocity resulting from (1) a deliberate initial bargaining, unimpaired for any party by immediate or pressing needs; and (2) equal competitive opportunities for the parties, once the system is under way. Noting that societies generally strive through the constant improvement of their strength for personal advantage and relative power, our hypothesis is that is (1) or (2), or a combination of both, is absent, and to the extent that a full appreciation of the conditions of the less favored party is absent, the likelihood that the privileges and rewards going to the stronger will prevail over those going to the lesser in the system, is increased. This generalization is not taken for granted. Yet based on all available evidence, it may represent a most tenable search-model.

Statics (London: Chapman, 1850), III, 322; J. Harmand, Domination et colonisation (Paris: Flammarion, 1910), p. 29; Paul Leroy-Beaulieu, De la colonisation chez les peuples modernes (Paris, 1874), pp. 605-606; Hobson, op. cit., p. 368.

[31]Morgenthau, Politics among Nations, p. 33.

[32]Ibid., p. 28.

Thereupon we may begin our analysis of the Association of the African and Malagsy States with the EEC so as to find in which relationship the relevant variables occur in this particular case, and to draw conclusions as to the real nature of the system.

PART TWO

THE EQUALIZATION OF RELATIONSHIPS IN THE ASSOCIATION OF AFRICAN AND MALAGASY STATES WITH THE EEC

CHAPTER III

CIRCUMSTANTIAL FACTORS WHICH CONTROLLED THE FORMATION OF THE ASSOCIATION

In Part One, the chief motivating forces which cause the developed and the developing countries to desire relations with each other have been dealt with in terms of export and investment outlets, raw material needs and political-security considerations, for the former. For the latter, the motivating forces have been examined in terms of export markets for primary commodities and material and human capital import requirements. The relative significance of these forces for the EEC and the associated States is discussed in this chapter. The case of the EEC and that of the associated States will be treated together, and an attempt will be made to see in what sense these forces may have influenced the parties' bargaining powers and the nature of the resulting relationship.

Review of Controlling Factors

The first step in this endeavor is to examine the flow of trade and its composition between the EEC and the associated States. Table 1 shows that EEC imports by value from the associated States (AAMS: Associated African and Malagasy States) in the period 1960-1963 averaged only 1.9 per cent of the value of EEC imports from all sources. In the same period, EEC exports to these States averaged only 2.1 per cent of its world exports by value.

TABLE 1

EEC FOREIGN TRADE BY ORIGIN AND DESTINATION, 1960-1963
(in million U.S. dollars)

	Imports from			Exports to		
		AAMS			AAMS	
Year	World	Value	Percent of imports from world	World	Value	Percent of exports to world
1960	28,180	628.0	2.22	29,730	624.1	2.10
1961	30,810	578.9	1.88	32,310	682.2	2.11
1962	34,100	596.8	1.75	34.200	709.8	2.07
1963	38,510	(694.0)	(1.80)	37,550	(795.0)	(2.12)

Sources: United Nations, Statistical Office, Statistical Yearbook, 1966 (New York, 1967); European Economic Community, Statistical Office, Overseas Associates: Foreign Trade, 1964 (Brussels, 1965).

By contrast, imports into the associated States from the EEC during the period considered formed on average 65.78 per cent of all imports into these States, or 70.77 per cent exclusive Congo (Leopoldville), Ruanda and Burundi, and exports from these States to the Community averaged 66.39 per cent of all exports, or 72.29 per cent exclusive Congo (Leopoldville), Ruanda and Burundi (see Table 2). Further, while EEC exports to and imports from world rose by 8.77 and 12.22 per cent respectively, its exports to and imports from the associated States increased by 9.13 and 3.5 per cent respectively (Tables 1 and 2).

Assessment of the trade flow between the EEC and the associated Stated exclusive Congo (Leopoldville), Ruanda and Burundi may be justified. The EEC, in fact, is neither a predominant supplier nor a predominant customer of the ex-Belgian dependencies in Africa (see Table 3). This is explained both by the traditional "open door" policy established by the international regime of the Treaty Basin of the Congo, and by the relative importance of the ex-metropolitan country as an outlet for certain Congo products and as a supplier of the necessary equipment. Thus Congo exports prices are those of world markets in which they are competitive, and imports are obtained from those countries offering the best terms and the most favorable prices.

As this evidence clearly shows, the associated States depend heavily upon the EEC for their foreign trade, whereas, in this respect, EEC dependence upon these States is considerably small. This is the more obvious if we consider the relative magnitude of trade between the EEC and the associated States as percentage of their respective gross domestic product and national income. The calculations for 1962 are offered in Tables 4-7 for the EEC and a number of associated States for which corresponding data were available.

TABLE 2

AAMS FOREIGN TRADE BY ORIGIN AND DESTINATION, 1960–1963
(in million U.S. dollars)

(A) refers to all associated States; (B) is (A) less Congo (Leo), Ruanda and Burundi

Year		Imports from World	Imports from EEC: Value	Imports from EEC: Percent of imports from world	Exports to World	Exports to EEC: Value	Exports to EEC: Percent of exports to world
1960	A	919.1	624.1	67.90	937.2	628.0	67.00
	B	740.2	535.7	72.37	599.9	443.5	73.93
1961	A	994.4	682.2	68.60	798.9	578.9	72.46
	B	864.5	621.5	71.89	680.7	488.8	71.81
1962	A	1,089.8	709.8	65.13	837.0	596.8	71.30
	B	919.0	641.2	69.77	716.4	514.2	71.78
1963	A	(1,270.0)	(795.0)	(62.60)	(1,189.0)	(694.0)	(58.37)
	B	(953.9)	(662.7)	(69.47)	(803.8)	(578.2)	(71.93)

Calculated from: European Economic Community, Overseas Associates: Foreign Trade, 1964.

TABLE 3

CONGO (LEO) FOREIGN TRADE[a] BY ORIGIN AND DESTINATION, 1960-1963
(in million U.S. dollars)

Year	Imports from			Exports to		
		EEC			EEC	
	World	Value	Percent of imports from world	World	Value	Percent of exports to world
1960	178.9	88.4	49.41	337.3	184.5	54.70
1961	129.9	60.7	46.73	118.2	90.1	76.23
1962	170.8	68.6	40.16	120.6	82.6	68.49
1963	316.1	132.3	41.85	385.2	115.8	30.06

[a]Including Ruanda and Burundi foreign trade.

Calculated from: Ibid.

TABLE 4

EEC IMPORTS FROM AAMS[a] AS PERCENTAGE OF EEC GROSS DOMESTIC PRODUCT, 1962
(in U.S. dollars)

Country	Gross domestic product (billion)	Imports from AAMS: Value (1,000)	Imports from AAMS: As percentage of gross domestic product
Belux	13.5	70,652	5.2
France	72.6	349,553	4.8
Germany	88.7	44,276	0.5
Netherlands	13.3	37,469	2.8
Italy	42.1	26,736	0.6
EEC	230.2	528,686	2.3

[a]Excluding Malagasy Republic, Mali, and Somalia.

Calculated from: European Economic Community, _Overseas Associates: Foreign Trade, 1964_; and United Nations, _Statistical Yearbook, 1966_.

TABLE 5

EEC EXPORTS TO AAMS[a] AS PERCENTAGE OF EEC NATIONAL INCOME, 1962
(in U.S. dollars)

Country	National income (billion)	Exports to AAMS: Value (1,000)	Exports to AAMS: As percentage of national income
Belux	11.3	74,385	6.6
France	54.4	445,965	8.2
Germany	68.0	45,954	0.7
Netherlands	5.6	23,109	4.1
Italy	33.9	19,486	0.6
EEC	173.2	608,899	3.5

[a]Excluding Malagasy Republic, Mali, and Somalia.

Calculated from: _Ibid._

TABLE 6

IMPORTS OF SOME ASSOCIATED STATES[a] FROM EEC AS PERCENTAGE OF THESE STATES' GROSS DOMESTIC PRODUCT, 1962
(in U.S. dollars)

Gross domestic product (billion)	Imports from EEC: Value (1,000)	Imports from EEC: As percentage of gross domestic product
2.24	408,710	18.2

[a]Central African Republic, Chad, Congo (Brazza), Gabon, Ivory Coast, Niger, Togo and Upper Volta.

Calculated from: <u>Ibid.</u>

TABLE 7

EXPORTS OF SOME ASSOCIATED STATES[a] TO EEC AS PERCENTAGE OF THESE STATES' NATIONAL INCOME, 1962
(in U.S. dollars)

National income (billion)	Exports to EEC: Value (1,000)	Exports to EEC: As perdentage of national income
1.21	216,465	17.9

[a]same as in <u>Ibid.</u>

Calculated from: <u>Ibid.</u>

Naturally, EEC incomes from financial, commercial and shipping services performed for the associated States by the Member States, and capital transfers, visible and invisible, are not accounted for in our calculations in Table 5. Such incomes must be substantial, but could not be calculated with any degree of accuracy short of corresponding statistics.

Turning to the composition of trade between the associated States and the EEC, we find that the bulk of the former's exports to the latter is made of primary commodities. Such exports constituted about 87 per cent of all exports to EEC from the associated States considered in 1962. The figures, presented in Table 8, further show that these States draw between 63.2 and 90.4 per cent of their total earnings from exports to EEC from only three commodities, mostly tropical agricultural products, demand of which is characterized by low income elasticity. This can have important implications for the growth of the associated States, because these are heavily dependent upon export proceeds for stimulating economic development.

Further inspection of trade flows between the EEC and the associated States shows that trade is unevenly distributed among the Member States. As may be seen from Table 9 and 10, France has a predominant position in the transactions, with 62.02 per cent of exports from the associated States in 1960-1963 going to this country, and 73.5 per cent of their imports originating in it.

This lead us to the complex issue of post-independence relationships between France and its former dependencies south of the Sahara. When independence became inevitable for these French-speaking dependencies, France was ready to grant it, but under certain economic, technical, cultural and military agreements. A contractual relationship has given place to a constitutional one, as these overseas territories negotiated independence with France by

TABLE 8

TOTAL AND PRIMARY COMMODITY EXPORTS OF SOME ASSOCIATED STATES TO EEC, 1962

(in 1,000 U.S. dollars)

(A) Total exports; (B) all primary commodities; (C) main primary commodities

Country	Exports by destination		Value	As percentage of (A)	Commodity
Cameroon	World	A	103,366	-	
		B	87,835	84.9	Cocoa, aluminium, coffee (robusta and arabica), cotton, wood, butter and cocoa paste, bananas
		C	68,589	66.3	Cocoa, aluminium, coffee
	EEC	A	83,687	-	
		B	75,837	90.6	Cocoa, aluminium, coffee (robusta and arabica), cotton, wood, bananas
		C	58,592	70.0	Cocoa, aluminium, coffee, cotton
Central African Republic	World	A	14,163	-	
		B	11,969	84.5	Cotton, coffee robusta, diamond, natural rubber (raw)
		C	11,610	81.9	Cotton, coffee robusta, diamond
	EEC	A	9,011	-	
		B	7,877	87.5	Cotton, coffee robusta, natural rubber (raw), diamond
		C	6,935	76.9	Cotton, coffee robusta

TABLE 8--Continued

Country	Experts by destination		Value	As percentage of (A)	Commodity
Congo .. .. .. Brazzaville	World	A	35,023	-	
		B	28,949	82.6	Wood, diamond, petroleum, palmoil nuts, palmoil
		C	27,275	77.8	Wood, diamond, petroleum
	EEC	A	25,361	-	
		B	22,061	86.9	Wood, diamond, petroleum, palmoil, palmoil nuts
		C	20,439	80.5	Wood, diamond, petroleum
Congo .. .. .. Leopoldville	World	A	348,848	-	
		B	282,282	80.9	Copper, cobalt, palmoil, rubber, tin, coffee robusta, diamond
		C	282,282	80.9	Copper, cobalt, palmoil, rubber, tin, coffee robusta, diamond
	EEC	A	89,264	-	
		B	56,568	63.3	Palmoil, tin, rubber, coffee, copper
		C	56,478	63.2	Palmoil, tin, rubber, coffee
Ivory Coast	World	A	182,460	-	
		B	166,069	91.0	Cocoa, wood, coffee, bananas, manganese
		C	163,850	89.8	Coffee, cocoa, wood, bananas
	EEC	A	126,669	-	
		B	115,837	91.4	Coffee, cocoa, wood, bananas, manganese
		C	114,046	90.0	Coffee, cocoa, wood, bananas

TABLE 8--Continued

Country	Experts by destination		Value	As percentage of (A)	Commodity
Niger	World	A	114,505	-	
		B	12,254	84.4	Nutmeg, livestock, dry vegetables, nutmeg oil, raw skins
		C	10,545	72.6	Nutmeg, livestock
	EEC	A	8,198	-	
		B	8,033	97.9	Nutmeg, nutmeg oil, raw skins
		C	7,413	90.4	Nutmeg, nutmeg oil
Senegal	World	A	124,248	-	
		B	111,286	89.5	Nutmeg, nutmeg oil, wheat, calcium phosphate
		C	108,788	87.5	Nutmeg, nutmeg oil, calcium phosphate
	EEC	A	109,706	-	
		B	98,125	89.4	Nutmeg, nutmeg oil, calcium phosphate
		C	98,125	89.4	Nutmeg, nutmeg oil, calcium phosphate

Calculated from: European Economic Community, Overseas Associates: Foreign Trade, 1964.

TABLE 9

AAMS[a] EXPORTS TO WORLD AND EEC, BY DESTINATION, 1960-1963
(in million U.S. dollars)

		To EEC						
		Total		By destination as percentage of exports to EEC				
Year	To world	Value	As percentage of exports to world	Benelux	France	Germany	Italy	Netherlands
1960	973,187	664,636	68.29	28.05	49.44	9.12	5.86	7.53
1961	563,336	427,511	75,89	27.40	79.32	6.73	3.38	7.83
1962	935,086	528,686	56.54	13.36	66.12	8.38	5.06	7.08
1963	1,059,504	631,008	59.56	14.59	60.12	9.52	7.48	8.29

[a]Excluding Malagasy Republic, Mali (after 1960), and Somalia.

Calculated from: Ibid.

TABLE 10

AAMS[a] IMPORTS FROM WORLD AND EEC, BY ORIGIN, 1960-1963

(in million U.S. dollars)

		From EEC						
		Total		By origin as percentage of AAMS imports from EEC				
Year	From world	Value	As percentage of imports from world	Benelux	France	Germany	Italy	Netherlands
1960	828,217	543,686	65.65	11.96	73.27	8.18	2.88	3.71
1961	827,667	563,412	68.07	7.29	78.52	7.54	2.72	3.93
1962	972,241	608,899	62.63	12.22	73.24	7.55	3.20	3.79
1963	1,068,212	663,709	62.13	14.91	69.67	9.00	2.95	3.47

[a]Excluding same as in Ibid.

Calculated from: Ibid.

transfer of competence persuant to Article 78(3) of the 1958 Constitution. But the economic, monetary and financial agreements concluded with France retained, in the over-all, the pre-independence structure. With the exception of Guinea, all the new States have expressly confirmed their belonging to the franc area. Seven States (Ivory Coast, Dahomey, Mali, Mauritania, Niger, Senegal, and Upper Volta) declared upon reaching independence their attachement to the West African Union, which is characterized by a common issuing agency, and concluded on May 12, 1962 a Treaty with France to this effect. Mali, however, withdrew from the Union on July 1, 1962. It created its own currency, but remained in the franc area. The issuing agency of the West African Monetary Union, the Banque centrale des Etats de l'Afrique de l'Ouest, is a multinational public establishment. Two thirds of its board of directors are occupied by the representatives of the member States, and the remaining third by the representatives of France. Its currency is the franc CFA (the initials formerly stood for Colonies Francaises d'Afrique and now stand for Communauté Financière Africaine) which has a fixed relationship to the French franc of 50 franc CFA per French franc.[1]

The States of the former French Equatorial Africa (Cameroon, Central African Republic, Chad, Congo [Brazzaville], and Gabon) have retained, with minor modifications, the earlier system of the Mone-

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[1]"Transactions in French franc are made at fixed buying and selling rates and exchange rates for other currencies move with the French franc rates for these currencies." The CFA franc was originally established as the monetary unit of the French overseas areas in Africa in December 1945. The exchange rate was then fixed at 1 franc CFA = 1.70 French francs. The fixed relationship to the French franc was changed to 1 franc CFA = 2 French franc as of 18 October 1948, and to its present relationship of 50 francs CFA per French franc on January 1, 1960, when a new par value was established for the French franc. See International Monetary Fund, <u>International Financial Statistics</u>.

tary Union. However, Gabon and Cameroon reserved to themselves the right to create their own currency and national issuing agencies. At present, the issuing institute is the Banque centrale des Etats de l'Afrique équatoriale, and the monetary unit is the franc CFA as in West Africa.

As regards Madagascar, it has its own note-issue bank as of April 1, 1962 as a result of the co-operation agreement concluded with France on June 27, 1962, and a number of subsequent conventions signed on March 10, 1962. France holds a 50 per cent share in the Bank and appoints half its directors. Madagascar has its own currency, too, which has a fixed relationship to the French franc.[2]

The new States also maintained the old preferential regime in their commercial relations with France, though they are now free to negotiate and conclude commercial treaties with any country, whether it belongs to the franc area or not. We shall see later that under the present association system with the EEC, French protection to certain tropical products (groundnuts, cotton, palm-oil, coffee, rice) originating in some associated States will have to end within the Association's five-year period.

A question here imposes itself. What are Europe's interests in Africa? In fact, Africa is economically, politically and strategically valuable to Europe.

Economically, a developing Africa can provide an immense outlet for European exports, manpower and investment opportunities, beside being a huge additional source of valuable raw materials and unmanufactured foodstuffs.

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[2]France, Direction de la documentation, La coopération entre la France, l'Afrique noire d'expression francaise et Madagascar, Notes et études documentaires, No. 3330, 25 octobre, 1966.

Politically, Europe's withdrawal from independent Africa would have created a vacuum in which the U.S.A., Russia, and China will be confronting each other for control over the politics and economies of the new States. Indeed, although America's concern with Africa is relatively recent, she had made a remarkably quick advance in this respect by 1962. On the other hand, the Communists have at least two potential holds over the young African States: economic aid and education. Africa is highly vulnerable to Communism because of its general poverty, its disintegrating society, political antagonism, tribal pluralism, nationalism and anti-colonialism. Further, the new States need vastly increased technical and financial aid to carry forward the impetus independence gave to development. "They have a thirst for education and would accept assistance from any side."

Finally, on the strategic side, Africa can have command over Southern Atlantic shipping lanes and Western Europe may become dangerously exposed if it cannot rely upon the large space to the South--a situation which it was able to test during the Second World War.

The Implications

The implications of this situation for the desires of the EEC and the Associated States to continue the Association begun under the Treaty of Rome in 1958, may be clarified by an examination of the parties' respective attitudes to this Association after most of the African Associates had reached independence in 1960. At that time, the desire to continue the Association was expressed by both sides, and both had recognized the need for a practical readjustment of the existing links.

The desire, however, was not manifested with equal vigor by all concerned. The associated States insisted that what has been begun should be continued without interruption. Impatient of the delay between the end of the negotiations and the signature of the new Convention, the associated States, in February 1963, addressed to the President of the EEC Council a memorandum wherein they "deplored the delay in signing the Convention, which could entail a corresponding delay in its implementation," and requested that the signature should not be further deferred.[3]

In fact, the delay in signing the document was caused by the EEC Council which could not succeed in fixing an exact date for signature in view of objections from France's EEC partners, particularly Germany, Italy, and the Netherlands. Statements behind the scenes have led to the general conviction that these countries were unwilling to sign the Convention. The assumption was that the system was much more a political, commercial and financial advantage to France than to her EEC partners.[4]

The attitude of Germany to the Association of overseas countries having special relations with some Member States with the EEC is not new. The idea did not enchant her even in 1957 when none of these countries was independent. Indeed, foreign trade statistics for Germany show that this country, even well after the entry into force of the first Association, has comparatively very little commercial exchanges with the ex-dependencies of France, Belgium and Italy (see Tables 9 and 10). Germany may well now en-

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[3]European Economic Community, Commission, Sixth General Report on the Activities of the Community, 1 May 1962-31 March 1963 (June, 1963), p. 198.

[4]"The Delay in the African Association," Common Market, III (May, 1963), 90-91. The delay was also caused by the general "cooling-off" period which followed the breakdoan in the negotiations on Britain's entry into the Common Market.

joy the same right of establishment of nationals and companies and the same commercial treatment as the other Member States in the associated States. But these latter have been a traditional outlet for their ex-colonizers, so that Germany is again at a disadvantage as a late comer. Thus, although the placement of all contracts and orders in the associated States is subject to strict rules of free competition,

> . . . its is evident that French firms, which are well acquainted with the local circumstances in the former French colonies, are in a better position to make the lowest bid for projects on road building, agricultural promotion, school- and hospitalbuilding, etc. than firms in the other EEC member states. The same phenomenon occurs as to Italian contracts in Somalia, Belgian contracts in Congo, Ruanda and Burundi, and Dutch contracts in Surinam and the Netherlands Antilles.[5]

Germany, therefore, could not expect to benefit much from this Association relative to other Member States, particularly France, while it had to bear as much as this latter (the biggest beneficiary, indeed) of the burden of financial commitments overseas.[6]

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[5]"Ten Years European Development Fund: An Evaluation," Common Market, VIII (June, 1968), 165. Surinam and Netherlands Antilles are the Dutch overseas territories associated with the EEC under the Treaty of Rome and subsequent protocols.

[6]German hesitations in 1957 had some political bases, too. Writing in the Frankfurter Neue-Presse of 29.1.57, Marcel Schulte (Christian-Democrat) said that the Federal Republic of Germany "craint d'être entrainée par la bande à une participation à la mise en valeur des territoires africains, francais et belges, dans le cercle des puissances coloniales, et de perdre ainsi les sympathies et les marchés arabes" (Documentation francaise, Articles et documents, No. 0.465, 5 février, 1957, p. 4). Die Welte (independent) wrote on 24.1.57: "On est toujours d'avis que la République fédérale ne doit pas être associée, par le détour du Marché commun, à une domination colonialiste" (Documentation francaise, Articles et documents, No. 0.462, 29 janvier, 1957, p. 3).

For the distribution of financial commitments overseas among the Member States, see infra, p. 74

The reasons in Italy's hesitations toward the Association are also complex. Like France and Belgium, this country has specific interests in the system in view of her former tutelage of Somalia. She also likes to consider the African continent as her Mediterranean neighbor. But Italy was afraid that her strong commercial position in many South American countries might be jeopardized if the policy of preferential treatment applied on goods originating in the African States were continued.

The Dutch have no special links with the African States, and simply could not feel particularly attached toward them.

To a large extent, it was for reasons of political expediency that Germany, Italy and the Netherlands were led, though not unreluctantly, to accept the renewal of the system. The reasons lay not only in the dictates of European présence in Africa, but also, given French intransigence on overseas policy, in the Member States' determination not to let diverging views on the matter grow into an undermining factor to European integration and unity.

Conclusion

To conclude, both the EEC and the associated States seem to have been led to desire association from vital interests. But could the mere presence of such interests on both sides have produced of itself an approximation of complete mutuality in the distribution of benefits? It could if each party was in full capacity to use its assets to press a status in the system commensurate with the burdens it is bound to bear in it. Such was not the case here. When the Convention was negotiated, the economic and monetary systems of the French-Speaking associated States were already tied down to the former metropolitan country in a system rightly described as "a leftover of colonial relation rather than the result of any political will to integrate or of the voluntary renunciation of sovereignty."[7] The restraints of the series of bilateral agreements concluded before and after independence on the bargaining power of the new States must have been considerable, since any deviation from commitments which France deemed vital would not have been possible without inviting a severance of French financial and technical assistance.[8] Deprived of this aid, the result for these States would have been economically disastrous. the rapid cutting-off of French aid from Guinea, when this latter voted for independence in 1958, and the immediate repercussions of this action on Guinean economy, is a case in point.

For the rest, the Association is serving complementary interests and, as such, lends itself most readily to a disproportionate distribution of benefits.[9]

The first condition of our hypothesis--that mutually advantageous relationships among nations must result from a deliberate initial bargaining, unimpaired for any party by necessities--is not, therefore, fulfilled here, the majority of the associated States having been under the duress of political pressures and economic emergencies. As a result, the present system must be unequal. Assuming now that reciprocity is actually approximated, it can still be maintained that, unless a reasonable appreciation is made of the young economies of these States, the enormous dispar-

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[7]"Associating the African Associates," Common Market, II (May, 1962), 92; see also, G. Turin, "Interdépendance dans la domination," Economie et Humanisme, XXII, No. 147, supplément annuel (1963), 16.

[8]Besides, De Gaulle could have easily dispatched "paratroopers of his force de frappe upon the request of the menaced government" (Time, February 2, 1968, p. 26).

[9]See supra, p. 29.

ity in factor proportions between these and the EEC is bound to work toward a cumulative process biased in favor of the latter. This we shall investigate in the remaining chapter.

CHAPTER IV

MYTHS AND REALITIES OF EQUALITY

The object of this chapter is to examine the provisions of the 1964 Convention of Association so as to see what considerations are taken of the less favorable economic and human conditions of the associated States in the system. The first section of this chapter presents the relevant provisions. The second section contains a critical analysis of these provisions in the light of our objectives.

Major Provisions of the 1964 Convention

The Convention of Association contains four main titles: (1) commercial exchanges; (2) right of establishment, services, payments and capital; (3) financial and technical cooperation; and (4) the institutions.

Commercial Exchanges

The Convention adapts and expands the provisions on the liberalization of commercial exchanges begun under the Treaty of Rome (EEC Treaty) in 1958.[1] According to this Convention, certain tropical products originating in the associated States will enter duty-

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[1] Treaty Establishing the European Economic Community, and connected documents, Part IV, Arts. 132-34.

free. These products are: pineapples, coconuts, coffee, tea, cocoa, pepper, vanilla, cloves and nutmeg. The other products will benefit upon their import into the Community of the progressive elimination of customs duties and taxes with equivalent effect as the Member States apply among themselves.[2]

On their part, the associated States will expand the same tariff treatment to products originating in all Member States, and this no later than six months after the coming into force of the Convention. Further, the Member States are accorded in each associated State a 15 per cent reduction per annum on customs duties and taxes with equivalent effect.[3]

As regards quantitative restrictions, the Member States will eliminate such restrictions on products originating in the associated States as they apply among themselves.[4] The associated States, for their part, will gradually eliminate, and no later than four years after the entry into force of the Convention, all restrictions on products imported from the Member States. They also undertake not to introduce new quantitative restrictions.[5]

The Convention, however, provides for safeguard measures which the Community or the associated States may take to confront critical situations at home. Thus any associated State may retain or introduce customs duties and taxes with equivalent effect when such measures correspond to the requirements of its development and industrialization, or are intended to contribute to its budget.[6] But the levying of such duties and charges is subject to prior consultation on the request of the Community.[7] The Community, for its

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[2] _Convention_, Art. 2.

[3] _Ibid._, Art. 3.

[4] _Ibid._, Art. 5.

[5] _Ibid._, Arts. 6(1,2), 13(1).

[6] _Ibid._, Art. 6(3)

[7] _Ibid._, _Protocol No. 1_, Art. 4.

part, may <u>directly</u> take, or authorize a Member State to take, measures that may seem necessary to remedy serious perturbations in one sector of the economy, balance of payments difficulties, or problems affecting a regional economy.[8]

It is provided that the Convention will not form an obstacle to customs unions or free-trade areas between one or more associated States and one or more third states. Such unions must not, however, conflict with the principles and provisions of the Convention.[9] Moreover, the system applied by the associated States to products originating in the Member States may not be less favorable than that applied to products originating in the most favored third state.[10]

Right of Establishment, Services, Payments and Capital

The Convention provides that the associated States will, without discrimination against any Member State, accord nationals and companies from the Member States the right to seek establishment and carry non-wage earning activities on their territories. The application of this principle is, however, subject to reciprocity with respect to the associated States.[11]

The right of establishment includes the access to non-wage earning activities and their services, the constitution and administration of enterprises, notably corporations, as well as the creation of agencies and subsidiaries.[12] Services include activities of an industrial nature, commercial activities, liberal professions excluding wage-earning activities.[13]

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[8] *Ibid.*, Art. 13(2).

[9] *Ibid.*, Arts. 8, 9.

[10] *Ibid.*, Art. 7.

[11] *Ibid.*, Art. 29.

[12] *Ibid.*, Art. 31.

[13] *Ibid.*, Art. 32.

At the same time, the signatory States undertake to free payments connected with the facilities for establishment thus afforded, and to authorize transfer of these payments toward the Member State or the associated State in which the creditor or the beneficiary resides.[14] It is provided that the associated States will not introduce any new exchange restriction affecting the existing system of investments and payments as regards new capital movements by persons residing in the Member States, nor will they make existing rules more restrictive.[15]

Financial and Technical Cooperation

The EEC participates in the economic and social development of the associated States through the European Development Fund (EDF) which is administered by the EEC Commission in close collaboration with the Governments of the Member States.

The total amount of aid has been the object of lengthy negotiations between the associated States and the Community. The former had asked 1,600 million dollars; certain Member States wanted to retain the amount provided under the first Convention (581 million dollars); France and the EEC Commission proposed something between 900 and 1,200 million. Finally, the amount was set at 730 million for the associated States plus 70 million for the overseas territories of France and the Netherlands.[16] Of the 730

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[14] Ibid., Art. 35. [15] Ibid., Art. 37(1).

[16] The amount is borne by the Member States in the following proportions: France (246.5 million), Germany (246.5 million), Italy (100 million), Belgium (69 million), the Netherlands (66 million), and Luxembourg (2 million)(in Ibid., Accord interne relatif au financement et à la gestion des aides de la Communauté, Art. 1(2).

The Overseas Territories associated with the EEC are: (1) French Overseas Departments including Guadeloupe, Martinique, French million, 620 are in the form of non-reimbursable grants by the EDF, 46 million are EDF loans on special terms (40 years amortization period, low rate of interest, period of grace), and 64 million are in the form of loans by the European Investment Bank on ordinary terms.[17]

The range of expenditure is as follows: 500 million are earmarked for traditional types of capital investment, including economic and social infrastructural works, and technical assistance; 230 million are for aid to diversification and to production and rationalization of crops and sales methods. The rationalization is planned to enable certain products of the associated States to be marketed throughout the Community at competitive world prices.[18]

The Institutions

The Convention provides the Association with an institutional framework in which the EEC and the associated States are equally represented. The institutions are: (1) the Council of Association assisted by the Association Committee; (2) the Parliamentary Conference of the Association; and (3) the Court of Arbitration of the Association.

The Council of Association consists, on the one hand, of the Members of the EEC Council, the members of the executive Commission and, on the other hand, one member of the Government of

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French Guyane, Réunion; (2) French Overseas Territories including St. Pierre and Miquelon, Comores, French Somali Coast, New Caledonia, French Polynesia; and (3) Netherlands' overseas territories of Surinam and Netherlands Antilles.

[17] Convention, Protocol No. 5.

[18] Ibid., Arts. 17, 18.

each associated State.[19] The chairmanship is exercised in turn by a member of the EEC Council and a member of the Government of an associated State.[20] The Council meets at least once a year, and its decisions, resolutions, and recommendations or opinions require the unanimous agreement of both the Member States and the associated States. Its powers are defined in Articles 12 paragraph 3 (for the organization of the procedure of information and consultation), 34 (for the right of establishment), 27 (for the definition of the general orientation of financial and technical cooperation), and Protocol No. 5 (for the definition of "originating products." The other powers are determined in Articles 4(2), 29(2), 44(3), 51(1,2,5), 57 (3,4) and Article 1 of Protocol No. 2 (2).

The Association Committee consists of one representative from each Member State, one representative of the Commission, and one from each associated State, and its chairmanship follows that of the Council of Association.[21] Its aims and terms of reference are determined by the Council with a view to securing the continuity necessary for the smooth functioning of the Association.[22] The Council may, if necessary, delegate its powers to the Committee, and in this case, the Committee arrives at its decisions in the same conditions as provided for the Council.[23]

The Parliamentary Conference of the Association is composed of members of the European Parliament and members of the Parliaments of the associated States. It meets once a year and passes resolutions in matters concerning the Association. The Council submits an annual report on its activities to the Conference.[24]

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[19] _Ibid._, Art. 40.
[20] _Ibid._, Art. 41.
[21] _Ibid._, Arts. 45, 46
[22] _Ibid._, Art. 47(1).
[23] _Ibid._, Art. 47(2)
[24] _Ibid._, Art. 50.

The Court of Arbitration has five members appointed by the Council: the President and two judges are appointed after nomination by the EEC and the other two after nomination by the associated States. The Court has competence to settle disputes concerning the interpretation or the application of the Convention, arising between one or more Member States or the Community on one side, and one or more associated States, on the other side, if it has not been possible to settle the matter amiably in the Council of Association.[25] It hands down majority rulings and its decisions are binding on the litigants.

Having presented the main provisions of the Convention which are pertinent to our purposes, we may now pass to a critical examination of these provisions. We shall be particularly interested in seeing to what extent the Association has been adapted "so as to take into consideration the requirements of the young economies of the Associated States and the inequality in the stage of development reached by the contracting parties."[26]

The Meaning of "Reciprocity"

The inquiry which imposes itself in analysing the provisions exposed in the previous section is whether the liberalization of commercial exchanges, uncontrolled investment activities, and the unrestricted flow of financial resources between the EEC and the associated States are processes conducive toward an equitable distribution of rewards between the parties.

On the trade side, we tried to explain in Part One of this essay that a free expansion of markets strengthens primarily the

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[25] Ibid., Art. 51.

[26] Joseph Luns, loc. cit., p. 13.

advanced countries. In fact, this expansion can be an obstacle to the industrialization of the developing countries. Faced with the highly competitive products of established industries in the developed countries, young industries in the developing countries are easily ruled out of the market, and these countries are led of necessity to develop within the sector of traditional economies, that is the production of primary commodities.

Furthermore, we have seen that attempts to export manufactures from the new countries to the old industrial centers would result in inequitable transfers, because manufactured goods imported from the former will be competitive only at lower prices by means of export subsidies, state or private, or by substantially lowering wage levels in these countries below those of the industrial countries. In both cases, the result is a transfer of resources from the former to the latter.

It is true that, in the case under consideration, the associated States may retain or introduce customs duties and charges with equivalent effect on products imported from the Member States when such duties and charges correspond to the requirements of their economies. But what opportunities do these States have to benefit from this safeguard provision? So far, only Senegal has applied it when the breaking of relations with Mali threatened serious difficulties for Senegal industries which traditionally have an outlet in Mali.

The monetary system of the French-speaking associated States is indeed a major impediment to the application of the safeguard clause. The fiduciary system of these States is based on banks which are tightly linked to the Banque de France. These French dominated banks are traditionally concerned with commercial transactions exclusively and do not, as such, participate in government financing--in fact they never had any reason to do so as France covers any budgetary deficits--or play any rôle in public finance in general. This makes it all too difficult for these States to carry out individual credit policies or implement a policy of public finance without recourse to the Banque de France or the French Treasury.[27]

Further, foreign currency reserves are surrendered to the central exchange authority. This means that the African States concerned never have to worry about balance of payments problems, nor do they need to keep foreign reserves. Yet "such a tradition is no great help if it comes to the formation of national economic policy aimed at the achievement of an external equilibrium. Nor does it provide the necessary qualification for membership of the international financial organization."[28]

For the rest, the safeguard clause is reciprocal. That is to say, it is granted in full consideration of equal rights given to the EEC. It is worth while to note that this latter, while undertaking to pay due regard to the interests of the associated States in formulating its common agricultural policy, has alone the right to regulate its imports of similar and competing products (notably rice, cane sugar, oil-seeds)--though after consultation within the Council of Association. There are then reasons to believe that the Community will not accept a free flow of competing manufactures from the associated States into its markets.

Again, the associated States are disadvantaged in the application of the provisions on the right of establishment, services, payments and capital. For one, these States lack both the

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27"The Associated Territories," Common Market, II (January, 1962), 6.

28Ibid., 7.

necessary capital and entrepreneurs to carry economic activities, both within their territories and in the Community, on equal footing with European nationals and companies. We also recall from Part One that where foreign capitalists can freely choose and own investments in a developing country, they tend to embark where they can yield the relatively highest net income, irrespective of whether their activity may deviate from, or be inconsistent with, that which would be appropriate if the country's national long-term interests, instead of mere private gain considerations, were taken into account.

As regards exchange controls and profit restrictions, the Convention attempts to minimize their effects. The associated States undertake not to introduce any further restrictions than existed at the time of signing the Convention, but this limitation is not placed on the Member States. With such controls and restrictions minimized or removed, the seepage of income from the associated States to the Community is likely to be considerable.

One conclusion emerges from the analysis thus far: that the system of association between the EEC and the African States contains potentialities for a cumulative bias against the latter. What of the unfolding of such potentialities? We have seen in Part One that the absence, in the world system, of a central organ or institution to apply purposive social control on market forces tend to support the natural drift toward inequalities in international economic relations. But the Association of African States with the EEC provides for common, though modest, institutions. The question arises then as to what part these can be expected to play in initiating regularized interferences directed toward lessening the inequality which may grow up from the unhampered play of economic forces.

It should be immediately noted that the Association does not endeavor to introduce organized interferences with the market mechanism but, instead, gives freer play to this mechanism; the rôle of the institutions is mainly to serve as a means for preserving this general framework. Thus, Article 44 of the Convention stipulates that resolutions, recommendations or opinions formulated by the Council of Association are to serve "la réalisation des objectifs communs et le bon fonctionnement du régime d'association." The absence of policy interferences is obviously unsatisfactory to the associated States which have less chances than the EEC of benefiting from the liberalization of economic transactions.

Furthermore, according to Article 27, the general orientation of financial and technical cooperation is determined in the Council of Association, in which the associated States and the EEC are equally represented. At first sight, this may appear as a precious opportunity which the associated States may use to press policies tailored to their long-term national interests. But this depends upon certain conditions and circumstances. Thus Council decisions should conform to the realization of common objectives and the smooth functioning of the system. And in any event, the associated States lack the practical influence that would have made them potent forces in any deliberation.

For one thing, these States lack the power of their wealth, their economies consisting of enclaves largely controlled by business interests in Europe and elsewhere in the West, and must adapt themselves in one way or another to the policies of the controllers.

Secondly, the bargaining power of the associated States can be impaired by the relative level of their technical attainment and political maturity.

To some extent, the influence these States may exert over the Council's decisions will depend upon the quality of projects submitted to the Community as provided by the Convention.[29] But this quality has been deplored on several occasions. In a report prepared for the European Parliament on the activities of the First Development Fund (named Development Fund for the Overseas Countries and Territories), the EEC Commission remarked:

> . . . Si certains projets ont demandé un long délai d'instruction, cela est dû à l'importance des projets en question ainsi qu'au fait que certains projets présentés par les Etats associés n'étaient pas suffisamment étudiés et ont dû soit être renvoyés à ces Etats, soit faire l'objet d'études complémentaires par la Communauté, ce qui n'a pas manqué de provoquer des retards appréciables.
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> . . . .
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> Des causes, d'importance probablement égales, méritent d'être mises en lumière: c'est la dégradation progressive de la qualité des dossiers présentés par les gouvernements des Etats associés, les lenteurs apportées à fournir les justifications supplémentaires demandées par les services de la Commission et, par voie de conséquence, le surcroît de travail imposé à ces services qui, dans de nombreux cas, sont conduit à refaire les dossiers présentés ou les faire refaire par des bureaux d'ingénieurs-conseils spécialisés.[30]

Further, the capacity of the associated States to influence policy decisions in the Association is likely to be affected by the level of political maturity reached by these States. Thus on Council decisions, which require unanimous agreement, the associated States, with their greater number and their particularisms, will have to work out a minimum of political organization and cohesion. On the Community's side, the problem is less likely to arise, as the Council of Ministers' rules of procedure will apply.

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[29] Convention, Protocol No. 5, Art. 1.

[30] Communautés européennes, Parlement européen, Documents de séance 1964-1965, Rapport sur le bilan d'activité du premier Fonds européen de développement et les renseignements que l'on peut en tirer pour l'activité du deuxième Fonds, André Armengaud, rapporteur, Document 95, 23 novembre, 1964, p. 11.

In the circumstances, the question arises whether EEC financial and technical assiatnce to the associated States can be considered as a form of policy interference for the specific purpose of counteracting any bias in the distribution of benefits that may result from the inequality in the stage of development reached by the parties.

Looking at the performance of the EDF, we find that as per March 31, 1966, 235,382,000 dollars have been spent or engaged in the various associated States.[31] The distribution of this amount among the various activities is as follows:[32]

Economic and social investments	110,392,000
Aid to diversification	49,338,000
Aid to production	44,348,000
Technical assistance connected with investments..	18,060,000
General technical cooperation	11,394,000
Emergency aid	1,850,000
TOTAL	235,382,000

Economic and social investments include a technical school, public health training equipment, roads, a center for statistical training, equipment for agricultural cooperatives, secondary schools, a science faculty, water wells, soil conservation and reafforestation; aid to diversification includes a power plant, tea plantations, palm-tree plantations, stock-raising farms, a pier, a dam, development of cotton cultivation; aid to production includes

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[31]Only a small portion of the total amount has been contracted as at this date; the amounts of the first Fund are therefore included in this figure.

[32]European Economic Community, Fonds européen de développement, Situation des projets du 2ème FED en exécution (date de mise à jour: 31 décembre, 1965)(n.p., n.d.).

price support and structural amelioration; technical assistance connected with investments includes the latter's technical studies; general technical cooperation includes surveys and expert advice of different kinds; emergency aid includes aid against famines, floods, etc.

There is clearly progress from the first to the present Fund. The first Fund could finance only capital investments and, occasionally, certain technical assistance schemes. The present Fund has a wider range of expenditure. It will be seen, however, that aid to economic diversification is largely restricted to diversification within the traditional economic sector of the associated States, i.e., to primary production, and practically nothing is directed toward industrial activities.

The assessment or demonstration of the increase in industrialization in the associated States is rendered very difficult by the lack of even basic statistics in these countries. The United Nations provides statistics on industrial production in one associated States, namely Senegal. It is clear from Table 11 that efforts toward industrialization have been made in this country, though the rate of progress is slow relative to rates achieved in other developing countries. But the situation in Senegal, a rapidly advancing country, is not a true indication of that prevailing in the other associated States. Lacking the essential evidence for these States, we can only remark that the present Fund is primarily applied to long-term basic projects of infrastructure and various social services. The necessity of infrastructural and social projects for the development of the associated States is not disputed. But the Fund's failure, so far, to emphasize the re-orientation and diversification of the economies of the associated States greatly decreases their capacity to adapt their production toward a less vulnerable position in the Association. This is the

TABLE 11

INDEX NUMBERS OF INDUSTRIAL PRODUCTION (MANUFACTURING) IN SENEGAL AND SELECTED COUNTRIES, 1960-1966

1958 = 100

Country	1960	1961	1962	1963	1964	1965	1966
Senegal[a]	115	122	119	118	122	120	137
India	120	128	137	149	160	168	173
Mexico[b]	118	123	131	143	162	174	193
Pakistan[c]	133	155	179	203	226	240	261

[a]Including food, beverages, tobacco, textiles, shoes, chemicals, non-metallic mineral products, beds, mattresses, and some metal products.

[b]The non-ferrous basic metal industry and furniture are excluded.

[c]Most food products, clothing and footwear, wood products and furniture, printing and publishing, most chemicals, most of the non-metallic mineral products, and metal products are excluded.

Source: United Nations, Statistical Office, Monthly Bulletin of Statistics, XXII (February, 1968), Table 10.

more so since the policy of price support, the so-called surprix, now enjoyed by certain tropical products will have to end within the Association's five-year period, and the products concerned will have to be marketed in the Community at world prices. In this connection, the Banque centrale des Etats de l'Afrique de l'Ouest has pointedly observed in its 1961 annual report:

> Un alignement aussi hâtif risquerait de porter un coup funeste à l'économie des pays africains, de ceux du moins qui se sont développés jusqu'ici à l'abri de la zone franc et leur ferait sans doute perdre des concours précieux.[33]

Conclusion

The second condition of our hypothesis about the equalization of relationships between societies--the necessity of equal competitive opportunities for the parties, or, where theyr are absent, a reasonable appreciation of the less favorable economic and human conditions of the weaker party--is not, therefore, fulfilled in the Association of African and Malagasy States with the EEC. The principle of reciprocity is a salient feature of this Association: the analysis of the provisions on commercial exchanges, and the right of establishment, services, payments and capital has shown that the grant of one advantage on one side is always in complete consideration of equal advantages given to the other. But it is obvious that reciprocity between actors with grossly unequal opportunities tends to favor the stronger whose rewards from the system will tend to prevail over those going to the lesser.[34]

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[33] Quoted in G. Caire, "Marché Commun et Tiers-Monde," Economie et Humanisme, XXII, supplément annuel (1963), 104.

[34] The inequitable nature of reverse preferences granted by developing countries for the benefit of industrial countries was

For the rest, the application of the provisions on financial and technical assistance seems to result in a situation likely to cause the associated States to remain raw material producers. The preferential treatment applied on goods imported from these States into the Community may represent a gain for them. But it is a short-term gain, and only so in so far as third countries with economic production similar to that of these States are concerned.[34] The long-term advantage of the associated States would be in increased agricultural productivity and industrial production for domestic and foreign markets. It is pertinent then to ask whether the Community would be disposed to continue offering the same advantages to the associated States were they to try to diversify their economies by expanding industrial production at the expense of older, protectionist industries. Let us hope that it would.

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recognized by the U.S. representative at UNCTAD II in New Delhi (1968), who expressed the view that while his country is in favor of preferential tariff arrangements to be granted by all developed countries to all the developing countries, it is strongly opposed, if not to existing trade preferences, notably those prevailing between the EEC and the associated States, at least to the granting of reciprocal preferences by these States for the benefit of the Community. The U.S. representative (Under-Secretary of Political Affairs, Eugene Rostow) has reportedly said: "The United States considers as equitable the abolition of reverse preferences by the African States to the European Economic Community" (Quoted in <u>Le Commerce du Levant</u>, 7 février, 1968, p. 1).

[34]Note that the application of tariff preferences, in relation to African products, has caused constant discontent in non-associated developing countries, particularly Indonesia and the Latin American countries, which feared that such preferences might result in serious trade diversions from their suppliers to the suppliers in the associated States, thus disrupting traditional trade patterns.

SUMMARY AND CONCLUSION

Emphasis has been placed in this essay upon the conditions for genuine cooperation among nations. These conditions were stated as (1) a deliberate initial bargaining, unimpaired for any party by immediate needs; and (2) equal competitive opportunities, once the process is under way. Where, however, (1) or (2), or a combination of both, is absent, an efficient adjustment of the system to the position of the less favored party will be necessary.

As a case study we analysed the nature of relationships within the Association of African and Malagasy States with the EEC. We found that neither condition is fulfilled in this instance, nor are effective measures provided to mitigate the unfavorable position of the associated States in the system. We have seen that, where relations between regions embody disparities of income, differences in the state of technological advance and productivity, and wide variations in living standards, such relations, if unrestrained, tend to have cumulative effects causing increasing rather than decreasing inequality between the regions. Consistent with this, it seemed reasonable to conclude, that so long and in so far as the system between the EEC and the African States is not checked by effective purposive controls, the latter will not reap proportionate rewards from its operations, compared with those going to the EEC.[1]

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[1]Logically, the hypothesis developed in the course of the inquiry in Part One has not been verified in the Association EEC-AAMS. To prove (or disprove) its validity in this particular setting demands a weighing of the material and non-material benefits

The Yaoundé Convention is due to expire on May 31, 1969. Pursuant to Article 66, the contracting parties have started in June 1968 considering "what provisions could be made to apply for a further period." Here is, indeed, an opportunity which the associated States should exploit to stipulate more favorable terms for themselves in the Association. If the Community failed to respond to their demands, they could always break the bond with it. Most of these States, however, could not avail themselves of this alternative: their trade and monetary systems are so strongly tied to the franc area that such a measure cannot be resorted to without inviting economic disaster. What would be rational for these States is to make full use of the occasion of the re-negotiation of the system by displaying effective cohesion and trying to convince the European countries of the seriousness of their problems. With greater political experience than they had immediately after independence in 1962, they may perhaps succeed to obtain, for the next period, a treatment which would properly correspond to the development needs of their economies.

The final negotiations for the renewal of the Association are taking place at the time of writing (December 1968). In a recent statement on the course of the contacts, the special envoy of

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going to the parties from the system.. Yet no such quantitative assessment can be made here, because evidence on material benefits is inadequate or inexistent, and the distinctions concerning non-material benefits, being qualitative, do not lend themselves readily to the empirical operations in measurement. (We say "readily" advissedly, for qualification facilitates the making of distinctions of degree.) This, naturally, limits the generalizability of our hypothesis and suggest further research.

Yet the hypothesis has not been disproved. In fact, the variables in the Association have been found to occur in the same systematic relationship to each other as in the wider case of relations between developed and developing countries, which means that the hypothesis may simply continue to be maintained as reasonable.

the associated States to the Community, President Diori Hamani of Niger, said, "Les conditions de renouvellement de ce traité sont bonnes, mais nous voudrions obtenir mieux."[2]

Two demands are particularly stressed. First, given the deterioration in the terms of trade, the EEC is urged to help the Africans overcome instability in export proceeds and augment their purchasing power. Specifically, the Community is pressed to consider lowering the level of differential tariffs to which processed agricultural products are liable on account of its common agricultural policy,[3] and to increase imports from the associated States by reducing, or in any case onon-increasing, indirect taxation levied in Europe on tropical products to increase their consumption. Secondly, the associated States demand a fuller participation of the European Development Fund in their industrialization efforts, and the distribution of resources on the basis of adequate long-term planning.

Earlier in 1968, the EEC Commission addressed a note to the Council of Ministers and the Member States, which contained its views on certain problems concerning the renewal of the Convention. According to this document:[4] (1) the reciprocal system of trade preferences should be maintained "sous réserve des adaptations qui pourraient s'avérer opportunes, notamment si des solutions valables étaient par ailleurs apportées aux difficultés rencontrées par les pays en voie de développement en général et par les EAMA [Etats africains et malgache associés] en particulier, pour expor-

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[2]Quoted in L'Orient, 8 novembre, 1968, p. 12.

[3]The revision of such tariffs was in fact suggested by the EEC Commission.

[4]Communautés européennes, Commission, Groupe du Porte-Parole (CEE), Note d'information: Considérations de la Commission sur le renouvellement de la Convention de Yaoundé, Bruxelles, avril 1968.

ter leurs produits de base ou leurs produits semi-finis ou finis;" (2) financial and technical cooperation should be maintained in its general form, but resources should be increased and the system of loans with payment facilities granted by the European Investment Bank and the European Development Bank should be developed and more widely used; and (3) the provisions on the right of establishment, services, paymentsa and capital should be preserved.[5]

These considerations, remarked the Commission, "s'inspirent du double souci d'une part d'améliorer autant que faire se peut les dispositions existantes ou de mieux les adapter à leur objet, d'autre part de tenir compte de l'évolution des données économiques de ces dernières années, notamment en ce qui concerne le problème des échanges commerciaux entre pays industrialisés et pays en voie de développement."[6]

For their part, the associated States stressed that there was no question of giving up the preferences that they enjoy on the European market. Speaking at the third Conference of the Heads of State of the Joint African and Malagasy Organization (OCAM) at Niamey (Niger) on January 22, 1968, President Diori, the Conference Chairman, said:

> Naturally we are in favour of an organisation of the world market in favour of the developing countries and we shall go to New Delhi [to attend UNCTAD II] to cooperate in this direction. But we shall only back such an initiative if this does not lead us to lose our European preferences. We have suffered a hard blow with the loss of the French preferential market and we are not willing to lose any more.[7]

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[5] Ibid. [6] Ibid.

[7] Quoted in African Research Bulletin, Economic, Financial and Technical Series, V (February 29, 1968), 911B.

The following countries are members of OCAM: Cameroon, Central African Republic, Chad, Congo (Brazza), Congo (Leo), Dahomey, Gabon, Ivory Coast, Madagascar, Niger, Ruanda, Senegal, and Togo. Mauritania withdrew in 1965.

The associated States have hitherto been silent on the issue of reverse preferences for the benefit of the Community, and it may be the better part of wisdom that they have. The abolition or reduction of such preferences by these States in fact might cause the Germans and the Dutch to lose all interest in an association about which they did not feel especially enthusiastic from the outset.

Just how far will the associated States succeed in steering the system to their advantage depnds, to a significant extent, upon the way in which the EEC contemplates its long-term policy toward their economic growth. This is of paramount importance; for if equality between developed and developing nations necessitates a recasting of the internal structures of the latter--to create more favorable conditions for national intergration--and greater solidarity among themselves, it also calls for a re-thinking of the fundamentals of international relations. These relations have traditionally taken the form of domination of the weaker by the stronger. The emancipation of the new nations was carried out in the name of freedom and equality; yet as in the case of the emancipation of social classes on the domestic scene, so also in international politics equality of right, at first considered as the supreme goal, did not in most cases correspond to equality of fact. Relations between the richer and the poorer nations should, therefore, gradually move toward relationships of solidarity and equity. Inevitably, this demands reform of international cooperation in terms of a reorientation of world trade toward the accumulation of resources in the developing areas for the latter's benefit, not their exploitation. Conceived in this way, this reform can, if it succeeds, build a firmer basis for international cooperation. "In all their strivings to improve their economic and political situation," wrote Myrdal, "the developing countries have the same moral certitude as the labor movements in the industrially advanced countries once had when they overcame the impediements of poverty, ignorance, and apathy among the masses:

that wherever they succeeded in gaining something for the poor they built a firmer basis for the unity and strength of their nation.[8]

Yet the very prospects that make international redistributional measures attractive to the developing nations make them repulsive to the industrial ones. For the progress of the former inevitably carries within itself the potentialities of long-term alterations in the network of power relationships in the world--namely, as a result of increased competition for the established industries in developed countries. Increased demand for capital goods and new products in the developing countries can compensate, at least partly, for this competition. None the less, the risks seem real to those "upper-class" nations which are determined to preserve the preponderance of the distribution of power on their side, i.e., their economic, cultural and military supremacy. To quote Myrdal again:

> To a great extent these elite nations are content to continue living their own national lives, watching their privileges, implicitly convinced of the intrinsic superiority of their ways of life and wanting to have them generally accepted as norms, taking their own interrelations as the important ones and as forming the center of what is recognized as international problems.[9]

One can here mention the complications arising in the United Nations with respect to measures for the economic development of less developed areas: specialization vs. integral development, priority to industry or agriculture. The controversy is meaningful: it reveals the uncertainties of the industrial countries as well as their fears about the long-term effects of the self-assertion of the Third World. The implications for the West's future of a self-conscious Afro-Asia are often felt in Western

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[8] Myrdal, An International Economy, p. 320.

[9] Ibid., p. 316.

thinking. Thus James Reston, an influential New York Times columnist, evokes considerations of future protection against the rising pressure of races overwhelming the white ones.[10] In fact, the race issue may be potential in European plans. As a student of international relations put it:

> Europeans have both a regional and a racial identity. In American eyes, Europeans may be little more than inhabitants of another continent--cousins, perhaps, across the Atlantic. But to Africans and Asians they are both inhabitants of another continent and members of another race or group of races.[11]

Viewed in these terms, this diffrentiation may lead, in the end, to mankind's division into what has been called "a white bourgeoisie and a coloured proletariat."[12] Too many people are revolted at the suggestion of racial equality. Differences in civilizations and levels of progress, they say, are an elemental and indeniable fact of social life, so let things take their natural course. Others, generally on grounds of international morality, suggest that the stronger nations should undergo a certain transcendence in their relations with the lesser nations. Thus, the choice of investments in the poorer areas may not be guided by profit motives only. Says Francois Perroux, expressing the moral and humanitarian conviction of his school:

> Une espèce humaine respectueuse d'elle même se prononce en faveur du principe que les vies humaines, et les conditions fondamentales d'une vie humaine pour tous, doivent être protégées par priorité. Pour ce faire, il faut accepter des formes d'activité économique sans rendement, c'est-à-dire des formes bien spécifiées de l'économie gratuite ou de l'économie du don pendant une suite de périodes.[12]

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[10] Reston, "The Problem of Race in World Politics," New York Times, December 15, 1961, cited by Ali Mazrui, "African Attitudes to the European Common Market," International Affairs, XXXIX (January, 1963), 27.

[11] Mazrui, in Ibid., 27-28.

[12] Perroux, Niveaux de développement et politiques de crois-

This conviction is a matter of faith; experience offers very rare precedents of such selflessness, and Perroux's statement, as it were, simply appeals to nothing real.

We have argued that the cold war can, at times, be used by the uncommitted nations to press major compromises on the stronger powers by playing off one great power bloc against another. In fact, the part the cold war can be expected to play in the short run in strengthening the lesser nations' bargaining power cannot be too strongly stressed. The lessons of experience are that the existence of two competing superpowers in the world does not prevent either from intervening, directly or not, in the domestic affairs of lesser nations whenever an issue is raised which is deemed vital for what it considers as legitimate interests. These dangers are illustrated by what happened in Cuba, the Middle East, and more recently in Czechoslovakia. In such crises, the contending superpower was confronted with the choice of yielding to circumstances or of direct confrontation. The dreadful risks of mutual wholesale destruction of civilian life and property had dictated the former.

The long-term possibilities, however, are that the development of independent power centers in the world armed with the nuclear instruments of control and destruction may well cause improvement in the bargaining position of the lesser nations on the international scene--namely, as a result of the increase in the round of powerful contestants trying to exert influence over the minds and actions of these nations.

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sance, fascicule 1, cited by Georges Balandier, "Brèves remarques pour conclure," in Alfred Sauvy (ed), op. cit., p. 379.

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