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THE EEC AND THE LDCS: TRADE ASSOCIATION

AGREEMENTS WITH SPECIAL EMPHASIS

ON THE LOMÉ CONVENTION

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CHAPTER I

INTRODUCTION

The treaty which established the association between the European Economic Community (EEC)[1] and the developing countries of Africa, the Caribbean and Pacific (ACP)[2] was signed in Lomé, Togo on February 28, 1975. This agreement replaced the old trade agreements between the EEC and many of these same developing countries. The agreements which were replaced by the Lomé Convention include the Yaoundé Conventions which linked nineteen Francophone African states with the EEC, the Arusha Convention which linked the EEC to the East African Community, and some other agreements.

In accordance with the Yaoundé I and II Conventions, the Associate African States and Madagascar (AASM) received preferential treatment in the EEC market, under duty free and quota free provisions for all

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[1]The members of the EEC are: West Germany, France, Italy, Belgium, the Netherlands, Luxembourg, Britan, Denmark and Ireland.

[2]Of the forty-six original signees of the African, Caribbean, and Pacific (ACP) countries, nineteen were the original members of the Yaoundé Conventions. These are: Burundi, Cameroon, Central Africa Republic, Chad, Congo, Brazaville, Dahomey, Gabon, Ivory Coast, Malagasy, Mali, Mauritania, Niger, Rwanda, Senegal, Togo, Upper Volta, and Zaire. Three of the original signees of the ACP countries were former members of the Arusha Convention. They are: Kenya, Tanzania and Uganda (the East African

goods other than petroleum products and those covered by the Common Agricultural Policy of the EEC, e.g., sugar and tobacco.

The Arusha Convention included basically the same trade provisions as the AASM; essentially, the East Africans were accorded duty free quotas, and once the quotas were filled, re-imposition of the duty was not automatic, but at the discretion of the EEC.

The major provisions of the new Convention (The Lomé) fall basically in three areas. Firstly, a new provision in the area of trade liberalization allows for non-reciprocity on the part of the ACP countries. Secondly, the Lomé Convention calls for financial aid to help stabilize the export receipts of the ACP countries. Thirdly, the new Convention provides for industrial cooperation between the EEC and the ACP countries and the transfer of technology to the ACP countries.

The Lomé Convention, like the smaller scale arrangements before it, is aimed at creating a free trade area. Will an association of this type lead to equitable distribution of gains among the participating countries? Under what conditions will an association of this type increase per capita growth? In other words, is the association on "engine of growth"? Under what conditions will free trade of this kind expand the primary commodity market of the ACP countries? Can the ACP countries, by their own actions, influence how much they trade? An analysis of the

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Community). Eighteen were former Commonwealth states to which the EEC had a less formalized agreement. They were offered special agreements on Great Britain's adhesion to the Common Market. The African countries are: Botswana, Gambia, Ghana, Lesotho, Malawi, Nigeria, Sierra Leone, Swaziland, Tanzania, Uganda and Zambia. The Caribbean countries are: Bahamas, Barbados, Guyand, Grenda, Jamaica, and Trinidad and Tobago. The Pacific countries include: Fiji, Western Samoa, and Tonga. The remaining six out of the original forty-six are: Ethiopia, Liberia, Sudan, Guinea, Equatorial Guinea and Guinea Bissau (all African countries).

previous Associations should assist us in understanding and shedding light on the new EEC-ACP experience. This analysis should also tell us about the importance of trade policies in achieving the different development targets for the ACP countries.

Purpose of the Study

One of the main purposes of this study is to offer an assessment of the probable economic and trade effects of the EEC-ACP Association (the Lomé Convention). The study does not propose to empirically verify the economic and trade effects of the Lomé Convention. Instead, the study centers its attention on a discussion of the historical and theoretical merits of the Yaoundé and Arusha Conventions. The information gained from this study will then be used to offer some probabilistic comments on the new agreement (Lomé Convention). This approach is taken because the provisions of the new agreement are not radically different than those in the old agreements, and data on the period covered by the new agreement are not yet available.

Methodology

To determine the gains or losses of the associations, data on cost differentials would have been helpful. However, because of the unavailability of such data, this writer has adopted two alternative approaches to appraise the economic and trade effects of the Association.

The Commodity Analysis

A review of the general structure of exports from the developing countries of the EEC-ACP Association indicates that primary agricultural commodities and mineral resources continue to constitute the bulk of the exports to the EEC market. Much of the trade activity is concentrated on about twenty commodities which account for over 75 percent of the total exports of the ACP countries. The proposed commodity analysis will examine the export trends of each of these commodities for the period 1960-1974, which is the period covered by the Yaoundé and Arusha agreements.

The relative importance of free trade under the Lomé agreement can best be examined in terms of individual commodities. It is generally claimed that a nil tariff under an association of this type would improve the export earnings of the developing countries. This claim will also be examined by using the commodity analysis.

The Commodity-Terms-of-Trade

Another contention is that during the period of the Associations, there has been a secular trend in the terms of trade against the developing countries of the ACP.

Raul Prebisch's theory of commodity-terms-of-trade is used to verify this claim. To assist in this effort, the price index of exports for each year, 1960-1974, is divided by the price index of imports.

The period 1960-1974 (the period covered by the Yaoundé and Arusha Agreements) is chosen because it is long enough to establish some definite trend, and it also provides us with dependable data on imports and exports. It is also a period of great significance in the economic history of the developing countries of the EEC-ACP Association. The majority of these developing countries have been in Rostow's second stage of economic growth--the pre-condition for the take-off. Additionally, ideas and attitudes have emerged during this period which have encouraged progress in technology and the development of strong national states, preparing the way for the growth of business enterprises. Finally, transportation systems have been built and there has been an accumulation of money capital.

Chapter Summaries

The study will be divided into nine chapters. Chapter I will be introductory in nature. In Chapter II, the writer compares trade provisions of the Yaoundé and the Arusha agreements, and their implications for various products of interest to the developing countries are reviewed. The provisions of the Lomé Convention will be outlined in Chapter III. In Chapter IV, the general characteristics of the ACP economies will be discussed. A general summary of the selected theories of trade and development will be presented in Chapter V. It is necessary to note that the theoretical discussion which continues to be quite controversial points to two types of consideration regarding the effect of trade preferences on economic development. They are the resource allocation and the dynamic effects considerations. The relevancy of these two issues to the EEC-ACP Association will also be the subject of Chapter V.

It is generally agreed that any prior judgment regarding the impact of trade flows cannot be made without a detailed study of the commodities involved. Therefore, Chapter VI will employ the "Commodity Analysis Approach" to determine the export trends of the major commodities. It is hoped that this analysis will also help us understand the probable economic and trade effects of the EEC-ACP Association.

Generally, international trade relations between developed and developing regions have shown a secular trend in the developing countries' terms of trade, which has affected the economic growth and development of these countries. The objective of Chapter VII is to show that during the period of the Associations there has been a secular trend in the terms of trade against the developing countries of the ACP. The "commodity-terms-of-trade" analysis will be employed to test this hypothesis.

Chapter VIII will provide an appraisal of the probable trade and economic effects of the EEC-ACP Association (Lomé Convention). It will attempt to put together the historical and theoretical insights gained from the pre-Lomé Conventions in an effort to establish a basis for making a judgment on the probable impacts of the Lomé Convention. Chapter IX will present a summary of and a conclusion of the findings.

Source of Data

The primary trade data used in this study came from various sources including the following: The Economic Commission for Africa Trade Statistics, a branch of the United Nations; the Commodity Trade Statistics, published by the OECO; the United Nations Statistical Yearbook, published by the United Nations; the Direction of Trade, published by the International Monetary Fund; the FAO Mission to Africa publications; the National Development Plans of the ACP countries; and the Commodity Yearbook, published by the Commodity Research Bureau Inc.

The information published by the International Monetary Fund in its International Financial Statistics will be used to convert domestic currencies to U.S. dollars. The Foreign Trade Yearbooks give export values in considerable detail by product and by country of destination. Finally, in case there are trade statistics reported in national classification systems, these will be converted into the Standard International Trade Classification System (SITC) with the aid of the United Nations and other international publications.

CHAPTER II

BACKGROUND TO THE AGREEMENT BETWEEN THE EEC AND ACP

The importance of the appropriate trade and aid links between the developed countries of the EEC and developing countries of the ACP is evidenced by the past agreements signed between the EEC and the developing countries of the ACP group. The two most important agreements that laid the foundation for the signing of the Lomé Convention are the Yaoundé Conventions and the Arusha Convention. Therefore, the purpose of this chapter is to present the major provisions of these agreements and their general relationships to the Lomé Convention.

The Yaoundé Conventions: Principles and Practice

One of the first attempts by the developed countries of the EEC to institutionalize trade with a group of less-developed countries took place in 1964. The then original six EEC members[1] signed the first Yaoundé Convention with 18 African countries called "The Associated African States and Madagascar (AASM)."[2] Yaoundé I raised many issues--

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[1]The original six countries are: West Germany, France, Italy, Belgium, The Netherlands, and Luxembourg.

[2]The Associated African States and Madagascar were all independent nations, formerly colonies of Belgium, France, and Italy. The 18 countries are Burundi, Cameroon, Central Africa Republic, Chad, Congo-Brazzaville, Dahomey, Gabon, Ivory Coast, Madagascar, Mali, Mauritania, Niger, Rwanda, Senegal, Somali, Tango, Upper Volta, and Zaire. Mauritania joined in 1973 at the signing of the second convention and became the

particularly those that affected "non-associate members." The non-associate members" feared losing export trade because of the preference clause contained in the agreement. They feared losing a large percentage of tropical product exports of which they were the largest beneficiaries. Furthermore they were concerned about the "export products which were covered by the community's generalized scheme of preference."[1] "They also felt threatened by the generalized preference system because it benefited rivals such as Yugoslavia, India and Brazil; and this hampered their own chances of industrialization."[2]

There were other concerns with regard to trade which the AASM secured by competing with European farmers and manufacturers, rather than with rival developing countries. There were also other fears of less aid for the AASM group if others were allowed to draw on the European Development Fund. Finally, policymakers of the Associate States were concerned that the Association would become a political option. The AASM claimed that they have deliberately preferred the community as the first foreign partner in their development. At the same time, and increasingly, "they expressed the view that the community, despite the magnitude of its effort, did not seem to attach the same significance to its commitment

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19th member. The AASM and ACP will be used interchangeably because the AASM members later became a part of the ACP countries.

[1]See UNCTAD, Effects of the Generalized System of Preferences on the Tariff Advantages Enjoyed by the African Countries Associated with the European Communities. Document No. TD/B/C/5/4, May 1964, p. 34.

[2]C. Schiffman, The Developing Countries and the Enlargement of the European Economic Community, (published originally in Moniteur Africain) No. 546/1972), Commission Document No. 513/X/72-E, August 1972, p. 7.

in the Association."[1] Policymakers from the AASM, therefore, viewed the Association as a political relationship in danger of being weakened by the community's preoccupations elsewhere and the exclusion of the Commonwealth countries in Africa and the Caribbean. However, it was agreed to enlarge the agreement to include other African, Caribbean, and British dependencies if Britain joined the EEC.[2]

On the opening of the Conference in Brussels on July 25 and 26, 1973 for the renegotiation of Yaoundé I and the signing of Yaoundé II, the associates and associable members present at the conference expressed their desire to negotiate a new agreement with the EEC on the basis of a number of new principles. These new principles were:

(a) non-reciprocity in trade and tariff concessions,

(b) the revision of the so-called "rule of origin"[3] so as to facilitate the industrial integration of African countries,

(c) revision of the provision dealing with the movement of payments and capital so that it could take into account the objective of monetary independence in African countries and their need for monetary cooperation,

(d) The extension on a non-discriminatory basis, the provisions on rights of establishment to third countries,

(e) the non-adverse effect on intra-African cooperation,

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[1]See Commission of the European Communities, Memorandum on a Community Policy on Development Cooperation, 1972, p. 21.

[2]Articles 117-119 provide for association under the provisions in the EEC Treaty for 27 British dependencies, and Protocol 22 offers two alternative forms of association or a trade agreement to 20 independent Commonwealth countries listed in Annex VI of the Treaty. (The list in Article 24.2 of the Treaty of Accession excludes Hong Kong and includes the Bahamas which have since become independent.)

[3]Products originating in any Associated or EEC country would be regarded as originating in any other Associated country where they were further worked or processed.

(f) the free and assured access to EEC markets for all African agricultural and industrial products, whether or not they are subject to "the common agricultural policy of the EEC,"[1]

(g) the dissociation of EEC financial and technical aid from any particular form of relationship with the EEC,

(h) the guarantee for stable, equitable and remunerative prices in the EEC market for African products.

Yaoundé II was negotiated and signed in 1969. The main provisions in the agreement are outlined as follows.

Trade

Exports from the Associated states to the EEC would receive the same treatment as those applied to member states by the gradual elimination of all duties and the expansion of quotas. This elimination of duties would be applied to all products with the exception of petroleum products and those covered by "the Common Agricultural Policy (CAP)."[2] However such products as cloves, coconuts, coffee, cocoa, pepper, tea and vanilla entered the EEC duty free. At the same time, the associated states were required to extend the same tariff treatment to products originating from the EEC. Nevertheless, they might not introduce customs duties on products imported from member states when such duties correspond to the requirements of their development and industrialization. In the case of balance-of-payment difficulties, the associated states could also retain or introduce quantitative restrictions.

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[1]The Common Agricultural Policy (CAP) of the Community has two aspects, a market policy which allows farm goods to move freely within the Community and yet to maintain farm prices. The structural policy is mainly concerned with the size and number of farms within the Community.

[2]Such goods covered by CAP are sugar and tobacco.

<u>Financial and Technical Aid</u>

The Yaoundé Conventions had four main features dealing with financial and technical aid. First there would be an increase in aid from the European Development Fund (EDF) to the Associated states. Secondly, the EEC would provide a much wider range of financial aid than in the past. That is, some of the total amount provided by the EEC would be in the form of non-reimbursable grants. Loans or special terms, interest rebates, and short-term advances would be used to stabilize commodity prices. Thirdly, in the past the EEC had financed capital investment and in some cases provided technical assistance. Under the Yaoundé Conventions, the aid program was widened to include traditional types of capital investment, aid for production, and bonuses so that products could be marketed at competitive prices. Structural aid and aid for diversification in production were used as stabilizing measures to prevent price fluctuation. Fourthly, the EDF provided functional aid for technical cooperation.

The free trade provisions in the Yaoundé Conventions are qualified in general by Article 16, which states that,

> if serious disturbances occur in a sector of the economy of the Community or in one or more of its member states, or jeopardize their external financial stability, or if difficulties arise which result in a deterioration in the economic situation of a region in the Community, the latter may take the necessary protective measures.[1]

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[1]Details of the provisions of association can be found in Communauté Economique Européenne; Convention d'Association entre La Communauté Economique Européene et les Etats Africain et Malgache Associés a cette Communauté (64/346/Cee) or the unofficial translation into English by the Royal Institute of International Affairs, Convention of Association between the European Economic Community and the African and Malagasy State Associated with that Community. (Oxford University Press, 1963), p. 5.

Moreover, as was mentioned earlier, under the CAP program, the EEC granted preferential access to Associate members under various agreements and regulations. The reason for this move by the EEC was for the Associate members not to provide any threat to EEC products, but at the same time to give the Associate members a head start in competing for whatever residual market there was in the Community once local production had been sold. These preferences came under two headings: (1) those involved in the free-trade provision of the Yaoundé Conventions itself, and (2) those that were embodied in the various separate agreements on products covered by the Common Agricultural Policy. In the first group, the rate of preference was equal to the "Common External Tariff." For example, Table 1 shows the major products of interest to African states and the EEC.

In the second group, special arrangements existed for each of the various commodities which are of interest to the Associates. While in the case of such products as oil seeds, the Yaoundé Conventions insured that the Associate members had unrestricted duty-free entry into the EEC market. Finally, the Yaoundé Conventions did not impose any duty on groundnuts, though the EEC could impose one under certain conditions. Other commodities such as rice received a reduction, and tobacco received a duty-free entry status in the Common Market.

Arusha Convention

The Arusha Convention was signed between the EEC and the East African nations of Kenya, Tanzania and Uganda (or the East African Community [EAC]) in September 1969 and came into operation in January 1971. This trade agreement is another long-term agreement that led to the Lomé

Table 1

COMMON EXTERNAL TARIFFS APPLIED
TO PRIMARY PRODUCTS FROM AFRICA

Product	CET
Bananas (duty-free quota for Germany)	20%
Coffee, roasted or ground	15%
Coffee, unroasted	7%
Cocoa	4%
Bauxite	---
Alumina	5%
Copper (wirebars)	---
Copper (wrought shapes, wire)	8%
Tea	Nil 9% (suspended tariff)
Cotton	---
Cotton fabrics	13-15%
Clothing (outer and under garments)	17%
Canned pineapples	32%
Lead, zinc (unwrought)	13.2% per ton

Sources: Commission of the European Communities, Information No. 129/76, X/E, Brussels, EEC 1976; p. 29, Brussels, EEC 1977; and p. 53, Brussels, EEC, 1976.

Convention. In order to understand this agreement fully, and its impact on the Lomé Convention, it is necessary to examine some of its provisions.

The possibility of the United Kingdom's becoming a member of the EEC[1] in the early sixties raised the question of the status of the British colonies and the independent members of the East African Community. When

[1]See W.G.C.M. Haack, "The Economic Effects of Britain's entry into the Common Market," Journal of Common Market Studies, vol. II, no. 2, Dec. 1972, pp. 136-151, and M. H. Miller, "Estimates of the Static Balance of Payments and Welfare Costs of United Kingdom Entry into the Common Market," National Institute Economic Review, no. 57, August 1971.

Britain became a member of the EEC, Kenya, Uganda and Tanzania concluded an agreement (the Arusha Convention) with the EEC along the lines of the Yaoundé Convention in regard to trade (but without aid or institutions). The East African Community became associated members of the EEC under Part IV of the Treaty of Rome and benefited from arrangements similar to those of the Yaoundé Conventions.

The Arusha Convention to some extent protected the EAC from export competition with other associate members. Also the signing of the agreement between the EEC and EAC might have been a move by the EEC to secure the EAC market. There was a threat that important exports from the EAC would have been adversely affected by the adoption of the Common External Tariff of the EEC.

Unlike the Yaoundé Conventions, the Arusha Convention was essentially a commercial treaty between the EEC and the EAC. It established the reciprocal rights and obligations of the two parties in matters of trade and set up an institutional structure to supervise the working of the treaty. Moreover, "the pattern of a common standard in East African negotiations with the EEC was established."[1] Paradoxically, as this common front tightened with regards to Europe, it loosened with regards to East Africa. Therefore, the following provisions were set forth:

Customs Duties

The Arusha Convention called for a duty-free provision on products originating in the EAC. This duty-free provision contained three main exceptions. They were: products listed in "Annex II of the Treaty

[1] Commission of the European Communities, "Memorandum on a Community Policy on Development Cooperation," 1972, p. 16.

of Rome" which are classified under the "Common Organization" of the market within Article 40 of the Treaty; products which were under the "Common Agricultural Policy", and other products such as unroasted coffee, cloves and canned pineapples. For the products listed in Annex II of the Treaty of Rome and those classified under the common agricultural policy, the intentions are clearly to protect European producers against competition from East African products. At the same time, the objective of the duty-free quotas on such products as unroasted coffee, cloves and canned pineapples was to provide protection to the competing exporter from other developing countries of the Yaoundé Conventions.

However, the Arusha Convention left open the possibility for the EAC to retain or introduce customs duties that might have an equivalent effect of meeting the economic development needs of the East African Community.

Quantitative Restrictions

The Arusha Convention eliminated quantitative restrictions. This meant that the EEC would not apply any quantitative restrictions on imports from the EAC. However, the quantitative restrictions were frequently applied to imports from non-associated countries. Germany, for example, could import duty-free (or at very low tariff rates) specified volumes of coffee and bananas from non-associated countries. These quotas were slowly reduced to meet the specification in the Treaty of Rome. "The EE Commission in justifying the policy of Association, has referred to affinities or special links shaped by geography and history between community members and developing countries."[1] The East African

[1]Ibid., p. 16.

Community scored at least as high in this respect as the other associate countries of the Yaoundé Conventions.

The EAC was also allowed to retain existing quantitative restrictions or to introduce new ones in support of its balance of payments or for the purpose of its economic development. However, in 1968 in accordance with the provision of the Yaoundé Conventions, quantitative restrictions were eliminated on imports from the EEC countries with the exception of France. This affected the Arusha Convention as well.

Other Provisions

Other provisions contained in the Arusha Convention included "the Safeguard Clause." This clause simply called for the suspension of economic activities if serious disturbances occurred in some sectors of their economies. For example, during a period of inflation, or of balance of payment problems, the Convention might be partially suspended. Another provision was that of the "rules of origin." The success of the Arusha or other conventions greatly depended on the definition of the "rules of origin." For the purpose of the Arusha Convention, the "rules of origin" accepted were those based on the practice among the EEC countries themselves. The basic principle of the rules of origin was that goods originating from a member-state would result in the changing of its classification under the tariff heading.[1]

A third provision was the "trade agreement with a third country." The Arusha Convention allowed the EAC to maintain, establish or extend customs unions or free trade areas among themselves. Writing in 1966,

[1]The latter is defined to mean the heading in the Brussels Nomenclature for the Classification of Goods in Customs Tariffs (BTN).

Okigbo looked forward to the reform of the association into a relationship in which the dominant concept should be one of cooperation.[1] In 1971, the Commission took up the theme of cooperation agreements, suggesting that they could be concluded with some third countries, rather than being a development of the Association agreements with the general system being applicable to other developing countries.[2] This new policy had a profound effect on the Arusha Convention because it made it difficult for the EAC to expand trade with other developed and developing countries.

The Right of Establishment and Payment was another provision. This provision provided the opportunities for companies and businesses of member-states to establish business in other member countries and to facilitate payment in respect to trade and such businesses. Finally the Arusha Convention called for "institutional" provisions. These provisions stressed the need for regular consultation and exchange of information on economic matters.

Other Trade Agreements Between the EEC and the Developing Countries

This section will briefly analyze some other agreements between the EEC and the developing countries that had some influence on the 1975 agreement (Lomé Convention) between the EEC and the ACP.

Associate Membership for Nigeria

When the Yaoundé I Convention was concluded, the EEC was ready to negotiate with other African countries requesting associate membership.

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[1]P.N.C. Okigbo, Africa and the Common Market (Longmans, London, England, 1967), p. 168.

[2]Memorandum on a Community Policy on Development Cooperation, 1972, p. 36.

Nigeria was granted associate membership, and the agreement was signed in 1966 at the Nigerian capital of Lagos. This agreement was later abandoned because of the Nigerian Civil War. Nigeria did however sign the Lomé Convention in 1975.

Agreement of Association with the Caribbean and Pacific Countries

Upon becoming a member of the EEC, the United Kingdom had invited the EEC to make the alternative of its 1963 "Declaration of Intent" available to independent Commonwealth countries in the Caribbean and Pacific regions. These independent commonwealth Caribbean countries are Barbados, Guyana, Jamaica, Trinidad and Tobago, and the Pacific countries are Tonga, Western Samoa and Fiji.

The production and economic structures of these countries are comparable to those of the African countries which signed the Yaoundé Conventions since most of them are very much interested in outlets for their sugar--a problem related to the future of the Commonwealth Sugar Agreement was very important. Any trade agreement between these Commonwealth countries and the EEC, it was suggested, would go a long way to protect the vital interests of these countries, and they would continue to regard this as a basis for future negotiations on their behalf in Brussels. These nations later signed the Lomé Convention between the EEC and the ACP.

Conclusions

It can be concluded that the provisions of the Yaoundé, Arusha and other conventions created new tariff preferences for the developing countries. The majority of these developing countries enjoyed preferential treatment with their metropolitan countries before the Yaoundé and Arusha Conventions. This means that the developing countries forfeited protection from a high tariff wall for protection behind a lower EEC tariff. At the same time, they gained a larger preferential market.

Thus, the Yaoundé and Arusha Conventions serve as useful devices to analyze the probable economic and trade effects of the EEC-ACP Association (the Lomé Convention).

CHAPTER III

THE AGREEMENT BETWEEN THE EEC AND THE ACP: THE LOMÉ CONVENTION

Economic association between the developed and developing nations of the world has had an appeal to policymakers in the developing nations. Part of this appeal is due to the assumption that such association will accelerate economic development among the developing countries. Moreover, if the size of the market would increase, specialization would be automatic, and the developing countries would be able to reduce their non-input imports from the developed countries and thereby free foreign exchange for other development purposes.

While some trade agreements would clearly involve trade diversion,[1] policymakers of the developing countries of Africa, the Caribbean and the Pacific (ACP) saw the Lomé Convention not only as a vehicle for growth or for making reallocative gains, but also as an instrument for accelerating the transformation of their economies. In some cases the Lomé Convention has been referred to as the "Marshall Plan" for the developing countries of the ACP.

The major objective of this chapter is to present a basic description and analysis of the theoretical and practical aspects of this agreement.

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[1]Linder argues that the aim of customs unions among developing countries should be "efficient trade-diversion." See Staffan B. Linder, "Custom Union and Economic Development," in Miguel Wionczek, Latin American Economic Integration (New York: Praeger, 1966), p. 39.

The Lomé Convention

When Britain, Denmark and Ireland were admitted into the EEC, this increased the membership of the EEC from six[1] to nine members. The provision in which Britain, Denmark and Ireland became members of the EEC allowed for the establishment of a link between the Commonwealth countries and the EEC. While the original 18 African countries that signed Yaoundé I and II[2] were preponderantly French-speaking, it was clear that with Britain now a member of the EEC, the English-speaking countries of Africa, the Caribbean and Pacific would be destined to enter into similar agreements.

The Commonwealth countries were offered three choices: (1) full association similar to Yaoundé I and II, (2) a modified form of association similar to the Arusha Convention and (3) a simple trade agreement. Negotiations started in July 1973 and were successfully concluded on February 1975 with the signing of the Lomé Convention between the EEC and the original forty-six (46) African, Caribbean and Pacific countries.[3]

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[1]The original six EEC members are: West Germany, France, Italy, Belgium, the Netherlands and Luxembourg.

[2]The eighteen African countries are: Burundi, Cameroon, Central African Republic, Chad, Congo-Brazzarville, Dahomey, Gabon, Ivory Coast, Madagascar, Mali, Mauritania, Niger, Rwanda, Senegal, Somali, Togo, Upper Volta, and Zaire. Mauritius joined the 2nd Yaoundé Convention in June of 1973 as the Nineteenth African country.

[3]The original forty-six countries are from Africa: Benin, Botswana, Burundi, Cameroon, Central African Republic, Chad, Congo, Equatorial Guinea, Ethiopia, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Ivory Coast, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Niger, Rigeria, Rwanda, Senegal, Sierra Leone, Somalia, Sudan, Swaziland, Tanzania, Togo, Uganda, Upper Volta, Zaire, and Zambia; from the Caribbean: Bahamas, Barbados, Grenada, Guyana, Jamaica, and Trinidad and Tobago; and from the Pacific: Fiji, Tonga and Western Samoa.

The signing of the Lomé Convention meant the superseding of all former conventions. The Convention was to be of five years duration from the date of signature. The community has also made known its willingness to consider applications from the former Portuguese colonies (Mozambique, the Cape Verde Islands, São Tomé, Principe and Angola).[1]

The Lomé Convention has several important features which were not part of the Yaoundé, Arusha or other conventions. An example is the provision that the ACP countries were required to grant only most favored nation treatment (MFN) to community exports rather than reverse preferences as was the case under the previous conventions. Specifically the provisions of the Lomé Convention include the following:

Trade

One of the major innovations of the Lomé Convention is its non-reciprocal feature. This provision allows for duty-free access on a non-reciprocal basis for all industrial products and 96 percent of agricultural products of the ACP countries to the EEC.

These agricultural products account for four percent of the total agricultural exports of the ACP countries to the EEC and are mainly covered by the EEC common agricultural policy. They were given preferential treatment as compared to similar products from third countries that are not associated with the EEC. Although the ACP countries were required not to extend to the nine EEC members any "reverse preferences"[2]

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[1]Angola, Mozambique, the Cape Verde Islands, São Tomé and Principe are now members.

[2]The ACP countries do not need the same obligations for items originating from the EEC as the Community has in respect to imports originating from the ACP countries.

they will give their EEC partners most-favored-nation (MFN) treatment and will not discriminate among EEC member states. However

> the most-favored-nation treatment . . . does not apply to any economic and trade relations between the ACP countries and other developing countries. This means that the EEC will receive no less favorable treatment than that granted to any 'developed' country, but will not receive better treatment than other developed countries which do not grant trade advantages to the ACP.[1]

Furthermore it enabled the ACP countries to continue their participation in regional economic integration with other developing countries.

Other Provisions

The Lomé Convention introduced other measures with regard to specific commodities such as sugar, beef, rum and bananas.

Sugar--In Chapter II, Article 25 and in Protocol No. 3 of the Convention treaty[2] it is provided that 1.4 million tons of sugar a year were to be exported from the ACP countries to the EEC.[3] Arrangements for this product had to take into account its importance to the economy of several ACP countries, particularly Commonwealth countries (Mauritius, Fiji, Guyana, Jamaica, Swaziland, Trinidad and Tobago, and Barbados) and also of the sugar cane requirements of the United Kingdom, a traditional customer of those countries both for refining and consuming the bulk of their raw sugar.[4]

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[1] C. Flesch, "On the Lomé Convention signed on 28th February 1975 by the EEC and the ACP," European Communities--European Parliament: Working Documents, 283/October 1975, p. 17.

[2] See "Convention ACP-EEC of Lomé: Collected Acts." Secretariat of the Council of the European Communities, pp. 112-114.

[3] See data in Table 2.

[4] Flesch, European Communities Working Documents, 283/October, 1975, p. 18.

TABLE 2

THE ACP SUGAR PRODUCING STATES
(1972, 1975-76)

ACP STATES	Production of Raw Sugar (1972 Metric Tons)	Total Exports of Raw Sugar (1972 Metric Tons)	Total Exports of Raw Sugar (1975/76 Metric Tons)	Quantities in Metric Tons
Barbados	116,500	102,073	50,430	49,300
Fiji	320,639	290,293	135,000	163,600
Guyana	335,338	319,632	154,190	157,700
Mauritius	727,410	650,409	487,040	487,200
Jamaica	387,441	286,143	119,920	118,300
Kenya	99,707	0[a]	---	5,000
Madagascar	110,162	39,327	10,030	10,000
Malawi	34,416	3,762[a]	20,000	20,000
P.R. of Congo	39,957	39,718	---	10,000
Swaziland	191,633	179,378	114,300	116,400
Tanzania	88,483	235[a]	10,120	10,000
Trinidad & Tobago	237,898	182,767	68,940	69,000
Uganda	131,207	0[b]	---	5,000

SOURCE: Commission of the European Communities: Information No. 129/76 X/E, Brussels, EEC, 1976.

Notes: [a]State Net importer in 1972.

[b]Production entirely absorbed by local consumption in 1972.

In accordance with this and under the terms of the convention, the Community also agreed to import sugar at guaranteed prices. This policy guaranteed the ACP countries an income in foreign currency to finance their development plans. In return, the Community will receive a steady flow of sugar without any danger to the free market price for sugar.

Beef--Under this specific provision for beef, the ACP countries would be able to export to the Community duty free an annual quota of beef.[1] Under this provision, countries like Botswana, which depend heavily on beef exports, will receive assistance concerning foreign exchange earnings.

Rum--As in the case of sugar and beef, rum from the ACP countries would be exported to the Community duty free. The only difference here is that a duty-free quota would be fixed each year. These quotas are calculated on the basis of the largest annual quantities imported from the ACP states into the Community in the last three years, increased by 40 percent annually on the United Kingdom market and 13 percent on the other Community market.[2] Should the ACP experience any difficulties, the Community also proposes to take appropriate measures to increase the quantities that may be exported by the ACP countries and similarly, in collaboration with its partners, to seek ways to expand sales in non-traditional markets[3] without imposing any danger to the French and Italian markets.

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[1]The determination of the annual quota is based on an annual growth factor of 7 percent export into the EEC.

[2]Flesch, Working Document, 283/75, p. 20. [3]Ibid.

Bananas--Bananas from the ACP countries to the EEC countries were to be excluded from the STABEX Scheme (the stabilization of export earnings)[1] but were to enter the EEC duty free. Moreover, steps were taken not to favor any state within the ACP group, but to make an effort to increase the sale of bananas within the EEC. To assist in the attainment of these objectives, a permanent joint group was set up immediately after the Lomé Convention was signed to keep the progress made under continuous review and to make such recommendations as were considered appropriate.[2]

The Export Revenue Stabilization Plan (STABEX)

STABEX is one of the principal features of the Lomé Convention. It guarantees the ACP countries a certain level of income by protecting them from the usual fluctuations due to market and other uncertainties:

> With the aim of remedying the harmful effects of the instability of export earnings and thereby enabling the ACP states to achieve the stability, profitability and sustained growth of their economies, the Community shall implement a system for guaranteeing the stabilization of earnings from exports by the ACP states to the Community of certain products on which their economies are dependent and which are affected by fluctuations and price and/or quantity.[3]

This plan covers at least twelve (12) principal primary products together with their main processed derivatives, making a total of twenty-nine items in all as shown in Table 3. These products are: seven basic tropical products (groundnuts, cocoa, coffee, cotton, coconut, palm, palm nut and kernel products) and products of first-stage processing derived

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[1]See below.

[2]Flesch, Working Document, 283/75, p. 20.

[3]Convention ACP-EEC of Lomé: "Collected Acts," Secretariat of the Council of the European Communities. Article 16 of the Lomé Convention, p. 14.

TABLE 3

ACP STATES AND THEIR PRODUCTS WHICH ARE COVERED BY THE STABEX SYSTEM

ACP STATES	STABEX DEPENDENCE THRESHOLD %	PROPORTION OF STABEX PRODUCTS IN TOTAL EXPORTS	GLOBAL % OF EXPORTS COVERED BY STABEX
Benin	2.5	Palm Products (34%)	34
Botswana	2.5	Leather and Hides (9%)	9
Burundi	2.5	Coffee (86%), Cotton (3%), Leather and Hides (6%)	95
Cameroon	7.5	Cocoa (23%), Coffee (25%), Timber (12%)	65
Central African Rep.	2.5	Coffee (23%), Timber (21%) Cotton (18%)	62
Chad	2.5	Cotton (69%)	69
P.R. Congo	7.5	Timber (42%)	42
Ethiopia	2.5	Coffee (38%), Leather and Hides (13%)	51
Fiji	2.5	Coconut Oil (5%)	5
Gabon	7.5	Timber (32%)	32
Gambia	2.5	Groundnuts, including Oil and Cattle Cakes (94%)	94
Ghana	7.5	Cocoa (61%), Timber (19%)	80
Guinea	2.5	Coffee (11%), Palm Nuts and Kernels (6%), and Bananas (3%)	20
Guinea Bissau	2.5	Groundnuts (69%), Timber (5%) and Oil Cakes (3%)	77
Ivory Coast	7.5	Cocoa (15%), Coffee (23%) and Timber (29%)	67
Jamaica	2.5	Bananas (4%)	4
Kenya	7.5	Coffee (22%), Tea (11%)	33
Liberia	7.5	Iron Ore (71%)	71
Madagascar	2.5	Coffee (30%, Sisal (3%)	33
Malawi	2.5	Tea (17%), Groundnuts (7%)	24
Mali	2.5	Cotton (39%), Groundnuts (7%)	46
Mauritania	2.5	Iron Ore (73%)	73
Niger	2.5	Groundnuts (15%, Groundnut Oil (9%)	24
Rwanda	2.5	Coffee (61%), Rawhides (4%)	65
Senegal	7.5	Groundnuts and Groundnut Oil (35%)	35
Sierra Leone	7.5	Iron Ore (10%), Palm Kernel Oil (5%)	15
Somalia	2.5	Bananas (26%), Copra (45%)	26
Sudan	2.5	Cotton (56%), Groundnuts (9%)	65
Swaziland	2.5	Cotton (3%)	3

Table 3 (Continued)

ACP STATES	STABEX DEPENDENCE THRESHOLD %	PROPORTION OF STABEX PRODUCTS IN TOTAL EXPORTS	GLOBAL % OF EXPORTS COVERED BY STABEX
Tanzania	2.5	Coffee (19%), Cotton (13%), Sisal (9%)	41
Togo	2.5	Cocoa Beans (25%), Coffee (13%)	39
Tonga	2.5	Copra (50%)	50
Uganda	2.5	Coffee (66%), Cotton (15%), Tea (5%)	86
Upper Volta	2.5	Groundnuts & Groundnut Oil (8%), Cotton (22%)	30
Western Samoa	2.5	Cocoa (28%), Copra (45%)	73

SOURCE: Commission of the European Communities: Information No. 129/76/X/E, Brussels, EEC, 1976.

from basic products such as groundnut oil and oilcake, cocoa butter, extracts of coffee; as well as leather and skins, wood, tea, and raw sisal. Later iron ore was added to the list of products which could enter the EEC duty free.[1]

Under the STABEX plan, if export earnings fall 7.5 percent or more below the established reference level, the ACP countries would then request financial compensation from the STABEX funds. In the case of the "landlocked" and "island states"[2] (see Table 4) they would be able to receive payment from the STABEX funds more readily and under less stringent requirements than other ACP countries because of their level of economic development. For example, the percentage at which their export earnings should fall before requesting financed compensation was 2.5

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[1]See Article 17, Convention ACP-EEC of Lomé: "Collected Acts," p. 14.

[2]According to the United Nations criteria, 18 of the original 46 ACP countries are among the poorest in the world. Their average per capita GNP amounted to $148 in 1971.

TABLE 4

THE LANDLOCKED AND ISLAND STATES OF THE ACP:
GNP AT 1971 MARKET PRICES

Country	Population ('000) 1	GNP at Market Price Total (Million US $) 2	Per Capita (US $) 3
Bahamas	178	430	2400
Barbados	244	160	670
Benin	2009	300	150
Botswana	618	100	160
Burundi	3615	220	60
Cen. African Rep.	1586	240	150
Chad	3716	310	80
Equatorial Guinea	295	60	210
Ethiopia	25250	1990	80
Fiji	530	250	470
Gambia	364	50	140
Grenada	110	40	330
Guinea	4070	380	90
Jamaica	1901	1370	720
Lesotho	941	100	100
Madagascar	7220	1020	140
Malawi	4550	410	90
Mali	5123	370	70
Mauritania	847	230	280
Mauritius	1190	200	170
Niger	4132	400	100
Rwanda	3786	230	60
Somalia	2895	210	70
Sudan	16135	1900	120
Swaziland	433	80	190
Tanzania	13249	1470	110
Togo	2009	300	150
Tonga	90	30	300
Trinidad and Tobago	1030	970	940
Uganda	10148	1340	130
Upper Volta	5497	390	70
Western Samoa	146	20	140
Zambia	4250	1620	380

SOURCE: World Bank, World Bank Atlas, 1973, Washington, D.C., 1973 (rounded figure).

TABLE 4-Continued

Average Annual Growth Rate (1960-1970)		
Population 4	GNP 5	GNP Per Capita % 6
4.4	7.7	3.3
0.9	4.4	3.5
3.0	7.6	4.6
1.8	5.0	3.2
2.0	3.1	1.1
2.5	2.9	0.4
1.8	2.4	0.6
1.8	4.5	2.7
2.1	4.8	2.7
2.8	5.1	2.3
2.0	5.6	3.6
1.9	2.8	0.9
2.6	2.7	0.1
1.5	4.8	3.3
2.0	2.0	0.0
2.5	3.1	0.6
2.6	5.1	2.5
2.1	3.5	1.4
2.3	1.9	-0.4
1.9	7.6	5.7
2.9	0.4	-2.5
3.5	2.7	-0.8
2.4	1.3	-0.9
2.8	2.8	--
2.9	7.6	4.7
3.0	6.1	3.1
3.0	7.6	4.6
3.3	3.1	-0.2
1.9	4.0	2.1
2.7	4.8	2.1
2.1	3.0	0.9
2.5	1.5	-1.0
2.5	5.7	3.2

percent as compared to 7.5 percent for other ACP countries.

Payment to any of the ACP members would be based on the differences between actual earnings and the reference level set forth by the EEC. The Convention set aside the total sum of 375 million units of account[1] or $470 million as aid for the ACP countries for a period of five years which started in 1975. These funds were divided into five equal amounts annually of seventy-five (75) million units of account--with any balance carried over to the following year. Twenty (20) percent of these transfers are earmarked to be used for payment of claims to ACP members in the first four years interest free, and they are required to replenish these funds during periods of increased export earnings.

> Taking into consideration the situation of and prospects for the balance of payments, exchange reserves and foreign indebtedness of the ACP states concerned, the Council may decide: that the sums outstanding are to be reconstituted widely or in part, in one or more installments; or that rights to repayment are waived.[2]

These measures do not apply to all the ACP states. Those listed in

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[1]The Unit of Account is the European Communities standard accounting measurement introduced in order to simplify budgetary and statistical calculations. The value of the unit of account as of May 26, 1976 was as follows:

1 EUA = 49.0 FB/Flux (Belgium and Luxembourg)
1 EUA = 3.0 DM (Federal Germany)
1 EUA = 3.02 HFL (Netherlands)
1 EUA = 1.1 Pound Sterling (United Kingdom)
1 EUA = 7.0 Dkr (Denmark)
1 EUA = 5.2 FF (France)
1 EUA = 93.0 Lit (Italy)
1 EUA = 1.0 Irish pounds (Ireland)
1 EUA = 1.1 U.S. dollar (U.S.A)
1 EUA = 33.0 Yen (Japan)
1 EUA = 3.0 FS (Switzerland)
1 EUA = 33.4 Escudos (Portugal)

[2]Flesch, Working Document, 283/75, p. 23.

Article 48(2) of the Lomé Convention are exempted.[1]

Finally, under the provisions of STABEX, a special agreement was reached for sugar. Sugar represents 12 percent of total ACP food exports to the EEC, which is the single most important commodity. Sugar producing countries of the ACP undertook to supply specific annual quantities to EEC members. In turn, the EEC members agreed to a minimum guaranteed sugar price which was to be negotiated annually.

Increased Transfer of Financial Resources

The Lomé Convention provided for total aid from the EEC to the ACP states for a five-year period of the sum of 3,390 units of account or $4,270 billion, compared with $1.1 billion under the Yaoundé II. These funds which were to be used for development purposes, were to be handled by the new European Development Fund (EDF) and the European Investment Bank. The development fund came from contributions by EEC members, but "the breakdown of aid from the various member states[2] shows that the percentage provided by each country differs from the contributions to previous development funds."[3] Moreover, certain member states earmarked the sum of 160 million U.A. to overseas countries and territories that had special relations with them.

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[1]See ACP-EEC Convention, "Collected Acts," p. 22.

[2]See data in Table 5.

[3]Flesch, Working Document, 285/75, p. 29.

TABLE 5

CONTRIBUTIONS TO THE EUROPEAN DEVELOPMENT FUND BY PERCENTAGE

EEC Members	First EDF[a]	Second EDF[b]	Third EDF[b]	Fourth EDF[c]
Belgium	12.04	9.45	8.89	6.25
Germany	34.41	33.77	33.16	25.95
France	34.41	33.77	33.16	25.95
Italy	6.88	13.70	15.62	12.00
Luxembourg	0.22	0.27	0.26	0.20
Netherlands	12.04	9.04	8.89	7.95
United Kingdom	N.A.	N.A.	N.A.	N.A.
Denmark	N.A.	N.A.	N.A.	N.A.
Ireland	N.A.	N.A.	N.A.	0.60

SOURCES: Commission of the European Communities, Information No. 129/76/X/E, Brussels, EEC, 1976; and Commission of the European Communities, The European Community and the Developing Countries, Brussels, EEC, 1977.

[a]The First EDF was established under Yaoundé I,

[b]The Second and Third EDF established under Yaoundé II and Arusha.

[c]The Fourth EDF established under the Lomé Convention.

Industrial Cooperation

The Lomé Convention calls for the EEC to assist the ACP countries in specific industrialization schemes, training programs, research, transfer of technology, advisory services and assistance to small and medium-sized firms.[1] In order to achieve these objectives, two bodies were established by the Convention: an Industrial Cooperation Board and an Industrial Development Center. These two bodies were to be responsible for generating interest among EEC firms to participate actively with firms located in the various ACP countries.

Management and Consulting Machinery

Article 70 of the Convention called for a new economic relationship based upon an equal partnership. Moreover, the Convention called for a Committee of Ambassadors, Council of Ministers and a Consultative Assembly to manage the affairs of the Convention. This management council was to be comprised of equal representation from all original 46 members of the ACP countries.

The Council of Ministers was to include: 1) the Community's Council of Ministers, 2) members of the European Commission and 3) a member of the Government of each ACP state. The Consultative Assembly would be made up of: 1) the members of the European Parliament and 2) representatives designated by the ACP states.

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[1]Article 26 of the Lomé Convention. See EEC-ACP Convention, "Collected Acts," p. 17.

Safeguard Provisions

These provisions were included in the Lomé Convention in order for the Community or individual members to take actions to remedy serious economic situations such as inflations, recession, unemployment, or balance of payment problems that might exist in their economies--or within the Community. Also actions might be taken to remedy any other problems, such as political or social problems that could damage any region of the Community.

Conclusions

The provisions of the Lomé Convention are not radically different from those of the Yaoundé and Arusha Conventions and can be viewed as a logical progression from these trade agreements. However, the Lomé Convention has created an important relationship between the nine European nations and more than fifty of the developing African, Caribbean and Pacific countries.

In summary, the provisions of the Lomé Convention offer the developing countries an alternative to accelerate economic growth; but it is important to avoid expecting too much from it because trade association cannot be a substitute for internal efforts and measures that each country must take.

CHAPTER IV

A SURVEY OF THE ECONOMIES OF THE AFRICAN, CARIBBEAN AND PACIFIC COUNTRIES

The main objective of this chapter is to review the characteristics and performance of the economies of the African, Caribbean and Pacific countries during the period 1964-1975; and to identify and discuss more extensively areas of particular importance to the Lomé Convention. This discussion should provide some basis for the appraisal of the Association between the EEC and the ACP countries.

This chapter will be as comprehensive as possible in terms of country and regional coverage, but deliberately selective in terms of topics. The choice of topics is partly determined by judgments on the relative importance of different questions relating to the Associations between the EEC and the ACP, and partly by the availability of data.

The proposition that the attainment of economic development should be the central aim of the Lomé Convention is one which might command widespread support from policymakers of both sides of the Association. Another related proposition is that not only the increases in the production of goods and services, but also changes in social attitudes and institutions in the developing regions of the Association are required.

The process of economic development is undoubtedly a very complex phenomenon and goes far beyond the narrowly defined economic features of a given society. Nevertheless, economic relationships continue to be important variables of the process of economic development. Therefore, the survey of the economic condition of the ACP countries should help in putting the Lomé Convention in proper perspective.

General Characteristics of the African Economies

This section will focus on a number of characteristics of the African economies for which information is available.

Levels of Development

The scarcity of data and information makes it difficult to provide an analytically comprehensive appraisal of the levels of economic development of the African economies. However, it may be possible to provide a fairly rough analysis of the economic development of the African economies and its effect on the Lomé Convention.

The monetary sector of most African countries is external. That is, exports, foreign investment, and other expenditures are mostly financed from abroad. This sector of the economy helps determine the size and growth of the African economies. Africa's deficit was $770 million in 1962 and fell to $700 million in 1963, thus improving the trade balance. Between the period of 1965 and 1969, there was a material improvement in the trade balance in a number of African countries.[1] This was due mainly to the increased exports of crude petroleum and high prices for other minerals. There was a fall in the net balance on merchandise between 1969 and 1970. The net effect of these changes was that the balance on current accounts worsened from a deficit of 810 million

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[1] United Nations Economic Bulletin for Africa: United Nations, New York, N.Y., vol. VI, no. 1, 1966, p. 2.

dollars to one of 860 million dollars.[1]

It is no secret that most of the African economies have been plagued by an inadequacy of foreign exchange. This explains the policies implemented by the various governments to preserve their foreign exchange reserves. These measures included exchange control, prohibition of remittances of dividends, interest and profits, advance cash deposits with respect to imports and reduction of allowances for foreign travel.

At the same time, the commercial banking institutions' impact on the process of economic development has been limited largely to the financing of exports and imports. Additionally, the distribution of credit is very poor.

Generally speaking, the level of economic development of most African countries is low. Data in Tables 6 and 7 suggest that African countries are much lower in terms of economic development than the developed countries of the EEC. The figures further suggest some variation in the level of economic development among the African countries themselves.

Further analysis of the data in Table 8 shows the following: the real gross domestic product for the developing countries of Africa grew at an average annual rate of 4.8 percent of 4.0 percent and of 4.4 percent for the 1960-1965, 1965-1969 and 1960-1969 periods respectively. The target growth rate of 5 percent set by the United Nations First Development Decade was therefore not achieved by the African economies. Between 1969-1971, there was also a slow economic growth in Africa. Data

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[1] Survey of Economic Conditions in Africa, 1971, United Nations, New York, N.Y., 1972, p. 12.

TABLE 6

SELECTED ECONOMIC DATA FOR
THE ACP COUNTRIES-1971

Country	Population ('000) 1	GNP at Market Price: Total (Million US $) 2	GNP at Market Price: Per Capita (US $) 3	Average Annual Growth Rate (1960-1970): Population 4	Average Annual Growth Rate (1960-1970): GNP 5	Average Annual Growth Rate (1960-1970): GNP Per Capita % 6
WEST AFRICA						
Ivory Coast	5,297	1,730	330	3.1	7.7	4.6
Dahomey	2,783	280	100	2.8	3.6	0.8
Ghana	8,856	2,250	250	2.6	2.6	0.0
Liberia	1,570	330	210	3.1	5.6	2.5
Nigeria	56,510	7,840	140	2.5	4.6	2.1
Senegal	4,019	1,020	250	2.4	2.0	-0.4
Sierra Leone	2,668	540	200	2.2	6.1	3.9
CENTRAL AFRICA						
Cameroon	5,786	1,160	200	2.1	6.1	4.0
Congo	1,123	300	270	2.1	3.0	0.9
Gabon	494	340	700	1.0	6.2	5.2
Zaire	19,326	1,750	90	2.8	5.7	2.9
EAST AFRICA						
Kenya	11,670	1,850	160	3.1	6.6	3.5
WEST INDIES						
Guyana	732	300	390	2.5	4.4	1.9

SOURCE: World Bank, World Bank Atlas, 1973, Washington, D.C., 1973.

TABLE 7

SELECTED ECONOMIC DATA FOR THE EEC

Country	Population (in Millions)[a]	GNP at Market Price		Average Annual Growth Rate	
		Total (Millions U.S. $)[b]	Per Capita (U.S. $)[c]	GNP 1960-1975 (%)[d]	GNP PER Capita[e]
Belgium	9,756,590	119	5,851	4.4	6,352
Denmark	5,021,861	111	6,245	3.5	7,006
France	51,702,987	119	5,639	5.0	6,360
Germany	61,975,900	109	6,029	3.4	6,871
Ireland	3,085,600	114	2,040	4.0	2,176
Italy	55,179,995	115	5,254	5.0	2,704
Luxembourg	357,400	109	5,435	3.0	6,102
Netherlands	13,545,056	116	5,345	4.4	5,949
United Kingdom	49,218,700	110	3,684	3.0	4,089

SOURCES: World Bank, World Bank Atlas, 1973, Washington, D.C. 1973, U.N. Demographic Yearbook, 1975; New York, 1975, and U.N. Statistical Yearbook, 1976, New York, 1976.

[a] 1973 figures

[b] 1975 figures

[c] 1975 figures

[d] 1975 figures

[e] 1975 figures

TABLE 8

AVERAGE ANNUAL GROWTH RATES OF GDP AND GDP PER CAPITA AT 1960 PRICES IN SUBREGIONS OF AFRICA 1960-1969

Subregion	1960-1965	1965-1969	1968-1969	1960-1969
		TOTAL GDP (in percent per annum)		
North Africa	5.7	4.6	3.0	5.2
West Africa	4.6	1.5	2.1	3.2
Central Africa	1.5	4.9	5.8	3.0
East Africa	4.5	5.4	5.8	5.0
Other Dev. Africa	5.1	4.7	6.3	4.5
Developing Africa	4.8	4.0	3.8	4.4
		GROSS DOMESTIC PRODUCT PER HEAD		
North Africa	3.0	1.6	0.0	2.4
West Africa	2.3	-1.0	-0.4	0.8
Central Africa	-0.7	2.7	3.6	0.8
East Africa	2.0	2.9	3.8	2.3
Other Dev. Africa	3.0	2.3	3.8	2.3
Developing Africa	2.4	1.4	1.2	1.9

SOURCE: United Nations, Economic Commission for Africa, 1970, New York, 1970.

in Table 9 indicate that the African economies achieved an overall growth rate of 3.4 percent in 1971, as against 5.5 percent in 1970. The target rate of 6 percent was set by the United Nations Second Development Decade. Data in Table 10 show that the African economies achieved a growth rate of 5.4 percent in 1972 which was again below the 6 percent target set by the International Development Strategy for the Second U.N. Development Decade. Also, the 1972 per capita GDP for the African economies remained at the average level of 2.6 percent while the U.N. target rate for the 1970's is 3.5 percent.

The African countries have experienced low levels of economic development despite the various trade and economic associations that these countries have been engaged in since 1964. There is a variety of factors responsible for this low level of economic development. Lack of gains from trade, price instability, balance of payment problems, and inadequate education are just a few of the factors responsible for the low level of economic development. Fewer than 50 percent of the relevant age group are enrolled in the primary schools. Moreover, available data shows that the number of university students in African countries is extremely small.

General Characteristics of the Caribbean and Pacific Economies

The area which is known as the Caribbean is a combination of many countries and islands. However, this section will deal with the countries that signed the Lomé Convention in 1975. These countries are the Bahamas, Barbados, Guyana, Jamaica, and Trinidad and Tobago.

TABLE 9

AMOUNT AND GROWTH RATE OF GROSS DOMESTIC PRODUCT
AT CONSTANT 1970 MARKET PRICES IN
DEVELOPING AFRICA, 1969-1971

Sub-Region	Amount in Millions of U.S. $			Annual Growth Rates %	
	1969	1970	1971	1969-1970	1970-1971
North Africa	20,979.8	21,931.6	22,169.9	4.5	1.1
West Africa	13,969.3	15,124.1	16,048.3	8.3	6.1
Central Africa	4,359.8	4,628.4	4,767.9	6.2	3.0
East Africa	9,256.8	9,551.3	9,972.2	3.2	4.4
TOTAL for the 41 Countries	48,564.2	51,235.4	52,956.3	5.5	3.4

SOURCE: United Nations, Economic Commission for Africa, 1972, New York, 1972.

TABLE 10

AMOUNT AND RATE OF GROWTH OF GROSS DOMESTIC PRODUCT OF SOME DEVELOPING AFRICAN COUNTRIES AT CONSTANT 1970 MARKET PRICES, 1971-72

Countries and Sub-Regions	Amount in Millions of U.S. $ 1971	1972	Annual Rate of Growth % 1971-1972
WEST AFRICA			
Dahomey	256.6	258.0	0.5
Gambia	51.8	52.1	0.6
Ghana	2,352.4	2,440.7	3.8
Guinea	318.5	317.8	-0.2
Ivory Coast	1,533.7	1,643.6	7.2
Liberia	447.0	464.4	3.9
Mali	277.2	243.9	-12.0
Mauritania	200.4	204.2	1.9
Niger	363.2	348.6	-1.3
Nigeria	1,509.3	9,094.6	6.9
Senegal	782.4	916.2	17.1
Sierra Leone	472.3	485.6	2.8
Togo	275.9	261.7	-5.2
Upper Volta	355.2	364.5	2.6
TOTAL	16,185.9	17,095.9	5.6
CENTRAL AFRICA			
Burundi	251.6	260.9	3.7
Cameroon	1,120.2	1,140.7	1.8
Central African Rep.	205.6	211.6	2.9
Chad	270.5	242.7	-10.3
Congo	285.3	285.6	0.1
Equatorial Guinea	71.1	62.5	-12.1
Gabon	355.1	396.7	11.7
Rwanda	255.2	227.4	1.0
Zaire	2,212.6	2,325.4	5.1
TOTAL	4,997.2	5,153.5	3.1

TABLE 10--Continued

Countries and Sub-Regions	Amount in Millions of U.S. $ 1971	1972	Annual Rate of Growth % 1971-1972
EAST AFRICA			
Botswana	131.8	154.7	17.3
Ethiopia	1,883.8	1,992.8	5.8
Kenya	1,742.0	1,834.1	5.3
Lesotho	71.8	75.3	4.8
Madagascar	917.5	875.6	4.5
Malawi	377.1	406.2	7.7
Mauritius	208.3	238.2	14.4
Somalia	260.8	280.1	7.4
Swaziland	122.5	130.1	6.7
Tanzania	1,324.7	1,395.1	5.3
Uganda	1,273.8	1,331.6	4.5
Zambia	1,548.4	1,534.2	-0.9
TOTAL	9,862.4	10,248.0	

SOURCE: United Nations, Economic Commission for Africa, 1972, New York: 1972.

Like the African economies, the Caribbean economies are mostly suppliers of primary products. This function of supplier has left the Caribbean economies heavily dependent on a narrow range of exports. The agricultural sector is an important sector in the economies because it employs about 50 percent of the population, and also contributes heavily to the gross domestic products of many of the countries. This is true even today despite efforts to broaden the base of these economies by developing the manufacturing sector.

The Pacific region is no different than the African or the Caribbean regions. The Pacific region is made up of the Island nations of Fiji, Tonga and Western Samoa. These countries again are basically suppliers of raw materials to developed countries like those of the EEC. In the Pacific region, like the Caribbean and African regions, difficulties of an extraordinary nature are being experienced by many of the developing countries. Mass poverty and unemployment exist. Trade and real resource flows have considerably worsened over the past five years. These problems have caused critical foreign exchange shortages for these nations, and in some cases have totally disrupted development planning.

Levels of Development in the Caribbean

One of the most striking features of development in the Caribbean region in the past decade has been the contradiction between world economic expansion that is unparalleled in history and the aggravation of problems that have characterized the economics of the region.

The gross domestic product measured at current prices increased by an estimated 7 to 8 percent in 1973 as compared to an average annual rate of 10 percent between 1970 and 1972.[1] Agriculture, construction, tourism, and government activities were all responsible for this increase.[2]

Data in Table 12 show that of the six countries of the Caribbean that are members of the ACP, only the Bahamas had a GNP per capita in 1970 of over $1,000, and the other five had a per capita income between $500 and $1,000 per capita.

Although during the last ten years, from 1966-1976, the economic growth rate within the Caribbean countries has been rising rapidly, imports have increased faster than exports. The main reason for this is that agriculture has generally stagnated. At the same time, food imports have risen sharply as the population expanded. Therefore, there has been a serious deterioration in trade balances in most of the Caribbean economies.

Levels of Development in the Pacific Region

According to the "United Nations Strategy for the Second Development Decade,"[3] of all the countries in the Pacific region that are members of the Lomé Convention, only Western Samoa is classified as a land-locked country, and Fiji and Tonga are classified as Island nations. Western Samoa's land-locked status creates problems of transportation costs and this in turn adversely affects the level of its economic development.

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[1] Economic Survey of Latin America, United Nations, New York, 1973, p. 192.

[2] See data in Table 11.

[3] "An International Development Strategy for the Second United Nations Development Decade," General Assembly Resolution 2626 (XXV), 1970, Paris, pp. 56-59.

TABLE 11

WEST INDIES ASSOCIATED STATES: ESTIMATES OF GROSS DOMESTIC PRODUCT AT CURRENT FACTOR COST

	Millions of East Caribbean Dollars				Annual Growth Rate %			
	1970	1971	1972	1973	1970	1971	1972	1973
Export Agriculture	31.5	31.2	32.6	NA	-16.9	-1.0	4.5	NA
Agriculture for Domestic Consumption & Livestock and Fishing	26.4	27.6	29.2	NA	6.0	4.5	5.9	NA
Mining & Manufacturing	10.3	11.2	12.1	NA	2.0	8.7	8.0	NA
Construction	42.0	47.9	51.3	NA	34.2	14.0	7.1	NA
Distribution	47.7	54.2	60.2	NA	32.9	13.6	11.1	NA
Government	48.2	55.4	61.4	69.0	13.9	14.9	10.8	12.4
Miscellaneous	71.8	79.8	86.3	NA	14.7	11.1	8.1	NA
Hotels	18.0	21.6	24.3	NA	36.4	20.0	12.5	NA
TOTALS	277.9	307.3	333.1	358.0	13.4	10.6	8.4	7.5

SOURCE: United Nations, Economic Survey of Latin America, 1973, New York, 1973.

TABLE 12

CARIBBEAN GNP PER CAPITA AND GROWTH 1960-1970

	Gross National Product Per Capita US $ 1970	Average Annual Growth Rate in Per Capita GNP 1960-1970
Bahamas	2300	3.4
Barbados	570	3.4
Grenada	300	5.6
Guyana	370	1.1
Jamaica	670	3.5
Trinidad & Tobago	860	1.9

SOURCE: World Bank, World Bank Atlas, Washington, D.C., 1972.

Notes: GNP figures at market prices; per capita figures at current values and growth rates in real terms.

In general, the hard-core least developed countries have certain identifiable characteristics:

> low level of productivity in the agricultural sector and other sectors, lack of skilled manpower and managerial ability, little knowledge of their natural resources, lack of financial institutions and poor infrastructure, the dependence on a narrow range of primary commodities, and finally the lack of an integrated industrial sector.[1]

These characteristics, plus its being a land-locked nation will make Western Samoa a special problem for the EEC policymakers in their attempt to implement policies designed to assist other developing countries of the EEC-ACP Convention.

The Developing Islands of the Lomé Convention are Fiji and Tonga. These islands have very similar economic problems. They are small in both land size and population, and this suggests small domestic markets. (Tonga has a population of less than 200,000 inhabitants.)

The economic performance of the Pacific countries has been mixed. Data in Table 13 suggest that in 1970, Fiji and Tonga have a per capita GNP of over $300.

During the 1960's, only Fiji had a rising per capita income and this was mainly due to the massive investment by the public sector in order to develop the agricultural and manufacturing sectors of the economy. During the same period, income per capita for Tonga and Western Samoa declined because of the rapid rise in population in these countries, and the decline in world prices for agricultural products. Fiji continued to show a rise in per capita income, but the real total GNP for Tonga

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[1] See UNCTAD, Report of the Group of Experts on Special Measures in Favor of the Least Developed among the Developing Countries (TD/B/288), Dec. 1969, where these characteristics are identified.

TABLE 13

LAND-LOCKED AND DEVELOPING ISLANDS: POPULATION AND GNP

	Population 1971 (thousands)	Population Growth Rate 1965-1971	Population Density Per Km^2, 1970		GNP at Market Prices 1971 $ US (millions)	GNP Per Capita 1971 $ US	Growth Rate of GNP Per Capita (%)		Share of Manufacture in GNP 1970 (%)
			Total Land	Arable Land			1960-1871	1965-1971	
Fiji	530	2.5	28	358	250	470	2.3	2.6	10
Tonga	90	3.0	123	358	30	300	-0.2	2.4	2
Western Samoa	146	2.4	50	207	20	140	-1.0	0.3	3

SOURCES: World Bank, World Bank Atlas, 1973, Washington, D.C., 1973.
UNCTAD, Report of the Panel of Experts on Developing Island Countries, (TD/B/43/Add 1), July 1973.

and Western Samoa declined in 1971-1972 and in 1972-1973.[1]

In summary, it is safe to say that the per capita incomes of Fiji, Tonga and Western Samoa are relatively high compared with those of the other developing countries of the Lomé Convention. But as is the case of the African and Caribbean regions, they are experiencing stagnation. Export performance is not in good shape and the population is growing rapidly. In June 1973, a panel of experts reported to UNCTAD that in the coming years, the Islands will have to contend with serious domestic problems, not least of which will be the distribution of the benefits of their development to their indigenous peoples.[2]

Agricultural and Industrial Development in the ACP Countries

In order to fully examine the trade and economic implications of the African, Caribbean and Pacific association with the EEC, it is important to examine the two sectors, agriculture and industry, which are directly affected by the provisions of the Lomé Convention. It will be remembered that the Lomé Convention calls for the free entry into the Common Market of all industrial goods and 96 percent of agricultural products from the ACP countries.

The Agricultural Sector[3]

Because the agricultural sector dominates the economies of the developing countries of the ACP group, the overall economic development

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[1]See ESCAP, Economic Survey of Asia and the Far East, 1973.

[2]See UNCTAD, Report of the Panel of Experts on Developing Island Countries, TD/B/433, June 1973.

[3]Data in Table 14 show the share of agriculture in total investment in development planning for selected ACP countries.

TABLE 14

SHARE OF AGRICULTURE IN TOTAL INVESTMENT IN DEVELOPMENT PLANS OF SELECTED AFRICAN COUNTRIES (PERCENT)

Country	Plan Period	Share of Agriculture Investment		Planned Annual Increase of Agricultural Production
		Total	Public	
WEST AFRICA				
Dahomey	1966-1970	34	—	—
Gambia	1964-1967	--	21	--
Ivory Coast	1967-1970	--	30	5.3
Mali	1961-1965	--	20	9
Mauritania	1963-1966	9	17	2
Niger	1965-1968	31	--	3.3
Nigeria	1962-1968	--	14	--
Senegal	1965-1966-1968-1969	20	42	5.4
Sierra Leone	1962-1963-1966-1967	6	8	--
Upper Volta	1963-1964	40	--	--
Togo	1966-1970	23	26	3.5
CENTRAL AFRICA				
Cameroon	1966-1971	19	17.7	3.3
Chad	1966-1970	28	--	5.1
Congo (Brazzaville)	1964-1968	6	--	1.7
Gabon	1966-1970	1	--	3.5
Central Africa Rep.	1965-1970	18	--	5.9
EAST AFRICA				
Ethiopia	1962-1963-1966-1967	21	15.3	2.3
Kenya	1966-1970	4	26	4.8
Madagascar	1964-1968	12	31	5.9
Mauritius	1962-1965	24	29.7	--
Tanzania	1964-1965-1968-1969	15	28	4
Zanzibar	1964-1967	--	8	--
Uganda	1966-1970	13	27	5.2
Zambia	1966-1970	10	15	4.7

SOURCE: B.W.T. Mutharika, Toward Multinational Economic Cooperation in Africa (Praeger Publishers: New York, N.Y., 1972).

and structural transformation of the economies will be influenced decisively by the growth of the agricultural sector. By focusing on the agricultural sector of the ACP countries it is possible to identify the importance of this sector to the Lomé Convention and to the economic development of the ACP countries.

The agricultural sector of the developing countries of the ACP directly influences a large segment of the population through jobs, supplies of food, capital formation, and incomes. The agricultural sector also influences the foreign exchange and savings[1] of the ACP countries.

The importance of the agricultural sector among the ACP countries is underscored by the "Agricultural Surplus." Nicholl, in his article, "An Agricultural Surplus As A Factor in Economic Development,"[2] suggests that agricultural surplus is the basis for launching a program for economic development. "Agricultural Surplus" is defined as the physical amount by which total production exceeds the total food consumption of the agricultural population. His analysis leads to the conclusion that unless the ACP countries are able to do this, the export expansion that the Lomé Convention hopes for will not be achieved.

Owen[3] emphasizes the importance of sacrificing present consumption patterns in the interest of high rates of economic growth in the

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[1]Bruce F. Johnson and John W. Mellor, "The Role of Agriculture in Economic Development," The American Economic Review, vol. 51, no. 4, Sept. 1961, pp. 566-93.

[2]William H. Nicholl, "An Agricultural Surplus As A Factor in Economic Development," Journal of Political Economy, vol. 71, no. 1, Feb. 1963, pp. 1-29.

[3]Wyn F. Owen, "The Dcuble Developmental Squeeze on Agricultural," AER, vol. 56, no. 1, March 1966, pp. 43-70.

developing countries. This will result in the creation of surplus, and it becomes the responsibility of the agricultural sector to generate this surplus in the initial stages of economic development. Therefore, in order to meet the challenges of export expansion, the developing countries of the ACP must focus on the maximization of the growth rate in the agricultural sector of this economies.

Structure of Production

The agricultural sector accounts for the bulk of the export market for most of the developing countries of the ACP. These agricultural exports are in the form of raw materials or semiprocessed commodities. The most important agricultural commodities are coffee, cocoa, palm oil, tobacco, tea, bananas, sugar, and groundnuts.

The structure of production in the agricultural sector of the ACP countries can be characterized as a small-size farm. This characteristic permits the adoption of labor-intensive and capital-saving techniques. Furthermore, rapid and large returns in agriculture can be achieved with relatively minor changes in techniques. This strategy of labor-intensive technique can be explained partly by looking at the more efficient utilization of the ACP's resources of labor and land.

Institutional Aspects of Agricultural Sector

Data in Table 15 show that most of the manpower in the ACP countries is concentrated in the agricultural sector. In the densely populated developing countries of the ACP, there are large portions of the economy in rural areas where marginal productivity of labor is negligible, zero, or even negative. This portion of the population should be the

TABLE 15

POPULATION, AGRICULTURE, AND LABOR FORCE
FOR THE ACP COUNTRIES

Sub-Region and Country	Total Population ('000) (A)	Agricultural Population (B)	Labor Force (% of A) (C)	Annual Rate of increase of Total Population (D)
WEST AFRICA				
Dahomey	2,850	52	52.6	2.7
Gambia	364	84	56.0	2.0
Ghana	9,600	54	52.0	2.4
Guinea	4,070	83	54.6	2.2
Ivory Coast	5,410	81	54.8	3.0
Liberia	1,590	74	57.3	3.0
Mali	5,250	91	53.4	2.5
Mauritania	1,200	85	55.0	2.2
Niger	4,200	91	51.1	2.7
Nigeria	69,100	67	52.9	2.5
Senegal	4,080	76	54.3	2.4
Sierra Leone	2,620	73	54.5	1.5
Togo	2,050	75	52.4	2.6
Upper Volta	5,620	89	54.4	2.1
CENTRAL AFRICA				
Burundi	3,700	86	54.1	2.0
Cameroon	6,090	82	55.9	2.1
Congo	1,030	65	54.9	1.7
Central African Rep.	1,660	87	54.8	2.1
Chad	3,850	91	53.1	2.3
Equatorial Guinea	310	NA	61.1	1.4
Gabon	510	72	61.1	1.2
Rwanda	3,800	91	51.6	2.9
Zaire	22,800	78	54.9	3.0
EAST AFRICA				
Botswana	690	NA	55.0	3.0
Ethiopia	26,100	85	55.3	2.1
Kenya	11,850	80	51.0	2.8
Lesotho	930	NA	57.1	1.7
Madagascar	7,060	86	52.4	2.3
Malawi	4,950	87	52.6	3.3
Mauritius	880	60	54.5	1.6
Somalia	2,930	82	51.5	2.4
Sudan	16,420	80	52.5	2.8
Swaziland	420	93	50.5	2.7
Tanzania	13,980	86	53.0	2.7
Uganda	10,330	86	54.1	3.0
Zambia	4,360	80	50.8	2.6

TABLE 15--Continued

Sub Region and Country	Total Population ('000) (A)	Agricultural Population (B)	Labor Force (% of A) (C)	Annual Rate of increase of Total Population (D)
CARIBBEAN				
Bahamas	190	NA	NA	4.2
Barbados	246	23	38.0	0.5
Grenada	96	NA	38.0	1.7
Guyana	775	32	30.2	3.0
Jamaica	1,890	27	33.0	1.4
Trinidad and Tobago	1,050	17	32.3	1.0
PACIFIC				
Fiji	550	NA	NA	3.0
Tonga	94	NA	NA	3.0
Western Samoa	151	60	32.0	2.4

SOURCES: World Bank, World Bank Atlas, 1973, Washington, D.C., 1974; and United Nations, U.N. Statistical Year Book, 1974, New York, 1975.

main source from which the agricultural sector could be expanded in the ACP countries by paying subsistence wages to the farm laborers.

Therefore, despite the abundance of labor supply and land in the agricultural sector of the developing ACP economies, both resources are moving in opposite directions, resulting in inefficient utilization of these resources.

Capital, Credit, Rural Savings and Investment

Capital requirements for the development of the agricultural sector in the developing countries of the ACP are considerable because the surplus labor is slowly giving way to skilled and mechanized labor. This means intensive use of capital. However, available data and information clearly suggest a slow but insufficient capital formation in the agricultural sector of the ACP countries.

As mentioned above, agriculture remains the principal source of financing the general development in most of the ACP countries. For some of the African countries, one or two commodities account for over 90 percent of their total export earnings.[1] These earnings provide the necessary capital for investment in the agricultural sector and other sectors of the economy. However, structural conditions in the agricultural sector of the ACP economies, and the uneven distribution of resources and incomes, remain a primary hindrance to capital formation in the agricultural sector of the ACP economies.

[1]A working group of the "Economic Commission for Africa" recommended the use of the term "subsistence activities" to refer to the nonmonetary sector of the economy instead of using the terms subsistence transactions.

In addition, inefficient marketing and credit systems also help to impound and divert resources and surpluses that producers could capitalize on. Marketing and credit institutions are very important for the agricultural sector of the ACP economies. They can finance current consumption expenditures or expenditures on durable and non-durable capital goods. The availability of credit in the agricultural sector can be an important constraint on farm production and investment activities in these ACP economies. Therefore, the relationship between credit and capital in the ACP economies is a very close one.

However, in order to achieve an effective link between credit and savings in the developing countries of the ACP, financial institutions and interest rate policies had to play a very important role. The role of financial institutions in mobilizing voluntary rural savings and allocating credit has been emphasized by Dale W. Adams.[1] He determined that a

> low rate of interest in the organized rural sector act as a disincentive on rural savings and misallocates credit. Therefore, a rationalization of the interest rate structure is warranted in the rural areas of the developing countries.[2]

Actions by policy makers of the ACP countries of increasing public sector investment expenditure in agriculture will help to solve this problem. This action will also help to expand the agricultural sector to meet the increased demand for ACP agricultural commodities created by the Lomé Convention.

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[1]Dale W. Adams, "The Case for Voluntary Savings Mobilization: Why Rural Capital Markets Flounder," Spring Review, vol. XIX, June 1973, p. 25.

[2]Ibid., p. 29.

The Industrial Sector

Small scale industries have been one of the fastest growing sectors in the ACP economies. Small scale industries in the developing countries of the ACP can be an important source of employment as well as a healthy contributor to industrial production in these economies.

> Industrial development of the underdeveloped countries has become one of the great world crusades of our time . . . It is an effort in which the underdeveloped countries place a major hope of finding a solution to their problems of poverty, insecurity, and overpopulation, and ending their newly realized backwardness in the modern world.[1]

Since World War II, development economists in the developing countries of the ACP have continued to stress the importance of industrialization in the process of economic development. This pattern of industrialization in the ACP countries results in importing skilled labor from the developed countries.

Although the percent contribution of the industrial sector to the GDP is relatively less than that of the agricultural sector, its contributions are becoming increasingly felt, especially in light of the efforts to develop external trade with the European Economic Community.

In the case of the Caribbean economies, the sugar industry is one of the major industries in the region:

> In 1971, the Caribbean economies produced about 8.9 million tons, accounting for one-eighth of the total world production that year. In 1972, due to exceptionally adverse weather conditions throughout most of the Caribbean, production fell sharply to an estimated 7.5 million tons while world production increased to nearly 76 million tons.[2]

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[1]Murray D. Bryce, Industrial Development: A Guide for Accelerated Economic Growth, (New York: McGraw-Hill Book Company, 1960), p. 3.

[2]David Powell, Problems of Economic Development in the Caribbean,

Meanwhile, the industrial sector of the Pacific economies is mainly centered around the processing of local raw materials such as sugar, copra and timber. Nevertheless, other economic activities such as cement production help to provide the broader economic base that is needed for sustaining economic growth. The industrial sector of the Pacific countries like that of the African and Caribbean regions is relatively small. Basically in the hands of expatriate firms, the largest of these industries is the consumer product industry. Because these industries operate on a small scale, they are relatively insignificant in terms of employment and actual net output. On the other hand, these industries are important because they provide the essential scope and opportunity for local expertise and enterprise to flourish.

Enlargement of Rural Markets

The importance of the agricultural sector in the EEC-ACP trade relations is reflected not only in its role of creating agricultural surplus, but also as a potential for creating a market sufficient to induce industrial expansion for the ACP economies.

> The lack of effective demand and the small size and the market in developing countries have constituted a barrier to further development, and the enlargement of this market will thus create investment opportunities and encourage economic expansion.[1]

The small size of the ACP market tends to discourage private incentive in the domestic economies because of a deficiency in real

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(British-North American Research Association: National Planning Assoc.) Alfred Copper & Son Ltd., London, 1974, pp. 30-31.

[1]Ragnar Nurkse, Problems of Capital Formation in Underdeveloped Countries (New York: Oxford University Press, 1953), and W. A. Lewis, Report on Industrialization and the Gold Coast (Ghana), (Accra: Government Printing Dept., 1953).

purchasing power and low income. The local market for manufactured goods in the ACP market is very small because the people spend the largest part of their disposable income on food and housing.

In the developing countries of the ACP, where agriculture dominates the economy, the small market reflects low productivity in agriculture. An increase in agricultural productivity because of an expanded market to the EEC countries means a stimulus to induce economic growth.

Besides the mechanism of intermediate input requirements and output utilization in inducing economic growth, rural markets that are characterized by rising income and purchasing power have been proven to be a powerful stimulus to the growth of local industries for consumer goods.

Conclusions

To the policymakers of the ACP countries, the attainment of a proper balance between agricultural growth and industrial expansion because of the EEC-ACP Association is becoming a stubborn problem that they will have to face. Large scale industrialization will probably not be encouraged, because of competition with the advanced industrial sector of the EEC countries and also due to the lack of capital and managerial and entrepreneurial abilities. Agricultural production, on the other hand, can be increased rapidly with little capital and with moderate improvement in technique. Also, with less competition from EEC farmers on tropical products, it is increasingly recognized that agricultural development is a strategic element in the success of the EEC-ACP Association.

The issue of enlargement of the market, the importance of the agricultural sector to the success of the EEC-ACP Association, and the role the STABEX Plan will play in the agricultural sector, will be considered in detail in the following chapters.

CHAPTER V

THE TRADITIONAL THEORY OF TRADE AND DEVELOPMENT THE EEC-ACP ASSOCIATION

In the area of international economic relations, one of the main features has been the attempt to establish programs of trade association between the developed and developing countries. There is a general belief that a trade association would improve the market access for the developing countries and would become an engine for growth of their economies. Furthermore, there are other assumptions relating to the role of trade in development during the period of association and the prospects of export-led growth during the association.

These assumptions completely reject the traditional theory of comparative advantage as far as trade association or economic integration is concerned. Economists who advocate trade as an engine for growth believe the attacks on "pure trade theory" are derived from "growth theory analysis." They also believe that the major thesis of pure trade is that of allocation of resources rather than the reallocation of resources which is the main thesis of growth theorists. It is not the intention of this study to enter into this debate, but rather to examine the relevance of the traditional theories of trade and development to the EEC-ACP Association.

Trade Policy and Economic Development

The Traditional Debate

The traditional trade theory is focused on the allocation of resources and on the general equilibrium conditions that exist in the economy. On the other hand, the growth theory deals with the reaction of resources and the expansion of production. Therefore, in order to reconcile the two theories and apply them to the EEC-ACP experience, it is necessary to take into account certain non-market and dynamic elements.

Since World War II, the major ideology in the economic planning of the developing countries of the ACP countries has been industrialization. This shows the dissatisfaction among policy makers in these countries with the traditional theory of international trade. Since World War II, import substitution has been their official policy.

> The combination of "balanced growth" theory, the "big push", and the belief in the divergence between the returns to labor in agriculture and in manufacturing had promoted the sustaining motive behind this ideology.[1]

In order for the policy of industrialization to be successful, policymakers of the ACP countries had to rely on trade association to stress export promotion as opposed to import substitution. This policy rests upon the need to diversify their economies, thereby lessening their dependency on the export of primary commodities.

There is an increasing belief among policymakers of the ACP countries that trade association can expand trade and serve as the "potential superengine of growth." The ACP countries' poor export performance prior

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[1]Charles P. Kindleberger, Economic Development (New York: McGraw-Hill, 1965), Chapter 12.

to 1964 made import substitution policies attractive to the policymakers of the ACP countries. The optimism that trade could accelerate imports and exports, that is "imports depend upon export earnings, therefore, growth necessarily depends on exports, stem from two traditional economists--Linder and Hirschman."[1] Other traditional economists believe that the expansion of exports "will open an escape from domestic market limitations, generate additional sources of foreign exchange, attract foreign investments, and stimulate general economic activity."[2]

Still others believe that export-led trade-led influences the notion of "foreign exchange gap or the import constraint theory."[3] They further argue that this will not only increase foreign capital, "but also the crucial role that exports play in the economies of the developing countries."[4] The argument for the foreign exchange gap is that it is crucial to the process of economic development. Any shortage of foreign exchange can affect the financing of imports needed for growth. Linder explains that if the "import minimum" exceeds the "export maximum", the developing countries are faced with a foreign exchange gap.[5] As a result

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[1]S. B. Linder, Trade and Trade Policy, p. 5 and Albert O. Hirshman, The Strategy of Economic Development (New Haven: Yale University Press, 1968) pp. 169-172.

[2]Isaiah Frank, "The Role of Trade in Economic Development," in Richard N. Gardner and Max F. Millikan (eds.), The Global Partnership: International Agencies and Economic Development (New York: Praeger, 1968), pp. 48-56.

[3]H. B. Chenery and M. Bruno, "Development Alternatives in an Open Economy: The Case of Israel," Economic Journal, vol. 72, March 1962, p. 79.

[4]Ibid., p. 79.

[5]S. B. Linder, Trade and Trade Policy, Chapter 2. According to Linder, "import minimum" for growth is the imports of capital and intermediate goods and "export maximum" is the export of primary commodities

of ineffective substitution between goods produced domestically and imported goods, domestic capital is likely to be wasted. Therefore, foreign exchange earnings are often more important to the economic development of the developing countries than domestic savings.

The Empirical Evidence

One of the crucial issues in the trade association between the EEC and the ACP countries is that of the so-called income gap. The empirical evidence on key variables such as population growth, growth of the gross national product and per capita income reveal striking differences in the distribution of income between the developed and developing nations.

Early empirical work in the area of trade and economic development was done by Kuznets, who made the assumptions that there are "uniform patterns of changes on the structure of production as income levels rise subject to secular shifts due to innovational changes."[1] In the short-run, this is not likely to happen in the case of the developing countries of the EEC-ACP Association because the average per capita income for the developing countries of the EEC-ACP Association is about $250 as compared to more than $3,000 for the developed countries of the EEC. Moreover, due to worldwide recession, inflation, higher petroleum and manufactured import prices, the lower prices for commodity exports, the growth pattern of the developing countries of the EEC-ACP Association has not been impressive during the 1970's.

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and simple manufactured goods.

[1]S. Kuznets, Modern Economic Growth (New Haven: Yale University Press, 1966), and "Quantitative Aspects of the Economic Growth of Nations: X Level and Structure of Foreign Trade: Long-Term Trends," Economic Development and Cultural Change, vol. 15, Jan. 1967, Part II, pp. 1-140.

Leff[1] developed an econometric model to determine whether import-substitution had any effect on the Brazilian economy. His findings were that the growth pattern of the capital goods industry in Brazil was achieved without import restrictions. He concluded that this was due to an elastic domestic supply of inputs in the Brazilian capital goods industry. These inputs include technical, managerial and skilled personnel. Generally speaking, Leff was very skeptical about the study because he argued that the development of a capital goods industry by itself could lead to an accelerated rate of capital formation to finance economic development.

Another empirical testing of trade and development was by Arthur Lewis.[2] His purpose was to find the long-run growth rates of exports from the tropical countries to other parts of the world. His findings reveal some interesting aspects of export trends in the tropical countries. For the first thirty years of the period covered by his study, Lewis found a continuous growth pattern, but the depression of the 1930's and the two world wars affected growth during the period 1913-1950. Lewis concluded that the increase in production and exportation of tropical products is evidently possible. In order to achieve this increase in production and exportation, tropical countries may have to shift to the production of products for which there is an increase in demand such as cereals, meats and fruits. The tropical countries should also advocate more generous preferences and quotas from the developed countries

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[1] N. H. Leff, The Brazilian Capital Goods Industry, 1929-1964 (Cambridge, Mass.: Harvard University Press, 1968).

[2] Arthur Lewis, Aspects of Tropical Trade 1883-1965, Wicksell Lectures (Stockholm: Almquist and Wicksell, 1969).

so that they can expand their exports. Finally, Lewis called for the tropical countries to lower their individual trade barriers in order to encourage trade among themselves and take advantage of the growing demand for both agricultural and manufactured goods in their respective countries.

There is evidence today that the developing countries consider preferential treatment for exports a relatively unimportant source of potential gains for some commodities. Therefore, it became clear that one of the major options left to the developing countries is that of encouraging trade among themselves. As Lewis himself puts it, "they need to take over a growing share of the some $20 billion of manufactures that they import annually from the developed countries."[1]

Kravis[2] also tested the export expansion theory by using the data for the United States for the period covering the nineteenth century. He determined that the export expansion theory did not hold, that is, exports did not act as an engine for growth. The study also revealed that changes in the United States' domestic GNP took place long before there were any changes in exports. He concluded that most of the stimulus for industrial development came from foreign capital.

The Comparative Advantage Debate

The debate on comparative advantage starts with the traditional Heckscher-Ohlin theory of pure international trade. Hecksher-Ohlin advocates assume that relatively low cost of production will be achieved when

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[1] Ibid., pp. 15-16.

[2] I. B. Kravis, "Trade As A Handmaiden of Growth: Similarities between the Nineteenth and Twentieth Centuries," Economic Journal, December, 1970, pp. 850-872.

comparative advantages exist. Individual countries will then specialize in production and effectively utilize the cheap and abundant factors of production.

In order to achieve cost reductions, pro-Heckscher-Ohlin theorists argue that certain requirements must be fulfilled first, and that the production function should be the same in the world market. That is, there should not be any economies or diseconomies of scale, factors of production must be identical, and there should also be a diminishing marginal productivity for each factor of production. Firstly, there should not be any form of reversing factor proportions at different prices. Secondly, tastes must be the same for each country; and thirdly, factors of production must be immovable across national boundaries, but it must be easier to move the finished products across national boundaries.

Wassily Leontief[1] set out to test the Heckscher-Ohlin theory to determine whether or not the requirements provided by the theory fully explained trade patterns. By using the United States' export data, Leontief's conclusion put the traditional theory of comparative advantage into doubt. He found that "U.S. exports contain a higher proportion of labor to capital than do a typical bundle of U.S. import-competing goods."[2]

The debate goes on with Hal Lary, who tested the Heckscher-Ohlin theory to see whether or not the "developing countries have a comparative

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[1]Wassily Leontief, "Factor Proportions and the Structure of American Trade: Further Theoretical and Empirical Analysis," Review of Economics and Statistics, (November, 1956), pp. 386-407.

[2]Ibid.

advantage in products using relatively much of unskilled labor."[1] Another attempt to test the Heckscher-Ohlin theory was made by Nawal el Tatawy.[2] He used the manufactures data for seven Southeast Asian countries to determine whether these countries should have a comparative advantage over other countries in the production of manufactured products. Donald Keesing[3] also attempted to interpret comparative advantage and trade patterns. Both Tatawy and Keesing arrived at moderate and consistent results of comparative advantage.

Raymond Vernon,[4] a neo-Heckscher-Ohlin proponent, placed his emphasis on the so-called "product cycle," the kind of situation that is dominated by innovation which exists in high income societies.

The Debate on Trade Association

The results obtained from the various economic integration programs among the developing countries and between the developed and developing nations have not been satisfactory. The actual outcomes lag far behind the initial expectations. The factors responsible for these unsatisfactory results are numerous and complex, and in some cases, quite

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[1] Hal Lary, Imports of Manufactures from Less Developed Countries, (New York: National Bureau of Economics Research, 1968).

[2] Nawal el Tatawy, The Comparative Advantage of Less Developed Countries in Manufactures: The Case of Southeast Asian Countries, mimeo (1968); Also, Economic Interdependence in Southeast Asia, (University of Wisconsin, 1970), pp. 28-49.

[3] Donald Keesing, "Labor Skills and Comparative Advantage," Review of Economics and Statistics, (August, 1965), and "Labor Skills and Comparative Advantage," American Economic Review, (May, 1966), pp. 287-294.

[4] Raymond Vernon, "International Investment and International Trade in the Product Cycle," Quarterly Journal of Economics, (May, 1966), p. 190.

difficult to overcome. In this section, attention will be given to some of the most important factors that could affect the trade association between the EEC and the ACP.

Disparities among Member Countries

The disparities among member countries and the way in which integration may promote economic growth have become important issues among economists and policymakers. Firstly, the factors determining the opportunities for economic integration to promote economic growth are the availability of human and natural resources, the technological level attained, the size of the economy, and its geographical location. Secondly, the capacity of a country to take advantage of these opportunities is a significant factor. This capacity depends greatly on entrepreneurial quality--both private and public, institutional organizations, economic institutions relate to risk and innovations, and finally, economic policies that directly or indirectly affect the formation of prices of goods and factors of production.

Hicks sums up these factors by explaining these disparities in two categories: "The advantages of location and the advantages of concentration."[1]

Traditional theories claim that integration can make initial disparities worsen. At the same time, it is clear that economic integration gives rise to backwash and spreads effects; but the former seems to be stronger than the latter when dealing with integration schemes among LDC's. Economic activities are not located evenly throughout the

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[1] J. R. Hicks, Essays in World Economies (Claredon, 1959), p. 163.

integrated area, but to the contrary, there is the drive towards the formation of development poles.

> One factor influencing this polarization is the concrete nature of the integration . . . . is conceived just as the establishing of free trade and free movement of factors, in this case, the polarization effect would be stronger.[1]

Also initial disparities make it more difficult for the most backward nations to have the educational, political, social, and technological know-how to provide the integration programs with the mechanism to avoid the worsening of the disparities.

The possibility that the initial disparities may widen during the process of integration may pose a serious problem to the process itself. An example is that the poorest countries do not have the necessary skills to negotiate agreements that would protect their interests. Finally, in the process of economic integration, when disparities are present among some members, these members expect too much from integration in the sense that it can by itself solve the problem of disparities. As a result, policymakers of these countries postpone internal measures that would be beneficial to the process of economic development.

Distribution of Costs and Benefits

Another difficult problem of economic integration is that of distributing the costs and benefits of economic integration. In most of the countries that are involved with integration, the costs exceed the benefits. For this reason many integrated schemes have been faced with more

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[1] E. B. Haas and C. Schmitter, "Economics of Differential Patterns of Political Integration: Projections about Unity in Latin America," International Organization, Autumn, 1964, pp. 705-737.

problems than had originally been anticipated.

It is true that economic integration creates opportunities and new benefits, but at the same time it creates new problems and new costs. In order for the scheme to be successful, member countries have to find the ways and means to distribute them.

The benefits and costs a member country receives are mainly determined by its own economic conditions and the specific measures that the integration program contemplates. Examples of specific measures are: the degree of utilization of production factors, the implementation of sound monetary policy, exchange rate policy, wage policy, foreign investments, and finally the structure of the social organization.

Specific problems arising from the trade association relate mainly to the free trade of goods. This includes changes in trade flows, price levels, allocation of the factors of production, and fiscal revenues. Trade associations are also related to the mobility of factors, and these include the supply and demand of factors and financial and technical arrangements, including aid to the poorer members and subsidies for declining export revenues. All of these circumstances and conditions give member countries new opportunities offered by integration.

Nevertheless, one needs to be careful about these new opportunities because the concept of benefits and costs of economic integration or trade association is a very elusive one. For example, what might be a benefit for a particular member might be a cost for another. Additionally, not all member countries taking part in the trade association have the same objectives, therefore, each benefit will be judged in accordance with their aims and objectives, and the cost that a member country will accept is mainly dependent upon other alternatives that are available to that particular member. All of these problems make it difficult to have a clear idea of the distribution of costs and benefits of economic integration or trade association.

Several attempts have been made to measure the benefits and costs of economic integration.[1] However the crucial need is not so much to measure the benefits and costs of integration programs, but to find the right solution to the problems, particularly when the association is between developed and developing countries like the EEC-ACP Association. As a matter of fact, this is the problem that the EEC and the ACP nations have to face in the near future.

Import Substitution Industrialization

It is assumed that trade associations like the EEC-ACP trade agreement would help facilitate the domestic production of previously imported goods.

Experience shows that the results of import substitution industrialization (ISI) have not been satisfactory since the end of World War II. Within an integrated scheme, import substitution industrialization has brought new problems. Economies involved have become more and more rigid, and as a result have faced obstacles to further diversification of production and to increase the dependency.

Experience has also shown that ISI has created certain industrial activities that cannot compete on the international markets. But at the

[1]For a systematic survey of this problem, see the document by E. Lizano, prepared for UNCTAD, La Distribution de Beneficious y Costos en la Integracion Entre Paises en desarrollo, U.N., 1973, TD/8/394.

same time, certain degrees of protectionism have been instituted as a direct result of ISI.

Other Factors Affecting the Desirability of Economic Integration

Mikesell argues that, "being specialized in primary products, the LDCs tend to be more competitive."[1]

> This competitiveness will limit the welfare gains of economic integration among the LDCs because most of their exports of primary products are oriented to developed economies, and accordingly, economic integration among LDCs would not bring a sizeable expansion of their intra-trade.[2]

However, Balassa suggests that, "The criteria for competitiveness and complementarity are not relevant at all to LDCs unless given a different sense."[3] Demas, on the other hand, reports that for the LDCs, "The welfare gain or loss from these effects is relevant to manufactured goods and local foodstuffs rather than to traditional exports of primary products."[4]

Another factor affecting the desirability of economic integration as expressed by the traditional theory is that of transportation costs. Transportation costs limit the gain from economic integration among LDCs. In evaluating the problem of integration in the West Indies, Demas reports that, "without the development of cheap and regular inter-island air and

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[1]R. F. Mikesell, "The Theory of Common Market," p. 212.

[2]Ibid.

[3]Balassa, Economic Development and Integration (Mexico City: Centro de Estudios Monetarios Latinoamericanos, 1965), p. 25.

[4]William G. Demas, "The Economics of West Indies Customs Unions," Social and Economic Studies (March, 1960), p. 21.

sea transport, customs unions can have no meaning."[1]

Still another obstacle to the progress of economic integration is the degree of coordination of economic policy among member countries. There is hardly any possibility of progress without some degree of coordination in the area of economic policy. The coordination of policies will have to cover more areas as the integration program advances. The first area to be covered is the tariff policy, followed by the monetary policy, exchange rates, taxes, wages, subsidies, as well as, the treatment of foreign investments.

The requirement of policy coordination raises difficult problems, especially when it involves a developed region and a developing region. The reason for the difficulty is that most of the developing countries are newly independent states and are still in the first stage of building a pluralistic society. Policymakers of the developing countries want as much control as possible over economic policy. In addition, "very often the struggle for power is intense in a developing country, changes in government occur frequently, and commitments are not held, with the result that integration programs show a premature overpolitization."[2] Therefore, most developing countries are not ready to participate in an integration scheme that would require the surrendering of complete control of economic policy.

Finally, there are a number of socio-political issues. Economic integration as a social process and as a political decision requires

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[1] Ibid., p. 13.

[2] J. S. Nye, "Patterns and Catalysts in Regional Integration," <u>International Organization</u>, Autumn, 1965, pp. 870-884.

support of several social groups if not all groups for the program to be successful. This support must come from such groups as producers, consumers, bureaucrats or the intellectuals who in most cases consider economic integration as a convenience to their interests and ideas. Therefore, one reason that trade associations between developed and developing countries such as the EEC-ACP Convention have received little support is because exporters and small producers see integration as a political and economic danger. Moreover, trade associations are not supported because such groups as consumers and workers in the developing countries are poorly organized.

Also, many intellectuals hope that integration will diminish the ties of dependency and bureaucracy, with the hope of solving some of the internal economic and social problems. At the same time, industrialists who might have supported integration in the initial stage because of the new investment possibilities, soon find out that they have to compete with foreign companies usually stronger than themselves. Intellectuals also find themselves frustrated because integration does not reduce dependency, but only changes the nature of the phenomenon. Moreover, the bureaucrats soon find out that they are slowly losing the important instruments of economic policy and have to face new challenges that they are not equipped to handle. Policymakers of developing countries find out quickly how overpolitization hinders the possibility of transforming plans to reality.

In the final analysis, the enthusiasm for economic integration or trade association begins to diminish. Therefore, negative political support is an obstacle to the progress of economic integration.

Conclusions

The principal conclusion to be drawn from the analysis above is that the establishment of a trade association like the EEC-ACP Association is feasible if problems such as the income and other disparities among the developing countries and the distribution of costs and benefits can be solved.

There has been much disagreement both on the efficacy and desirability of integration. These disagreements are mainly on the issues appraising the effects of integration. The foregoing discussion, complex as it is, has made one thing clear, that the presence of disparaties among members of the integrated area result in members expecting too much from integration. Moreover, policymakers in these countries often decide to postpone internal reforms because of high expectations to be derived from integration.

It appears, therefore, that to achieve many of the anticipated effects of economic integration, would require a much closer integration of the EEC and ACP economies than the mere establishment of a common market.

CHAPTER VI

THE GAINS FROM TRADE: THE COMMODITY ANALYSIS

In the area of international trade agreement, there is the opportunity for the parties involved to export and import goods and services that can be cheaply produced by another party. The classical economist would consider this form of international trade agreement an "engine of growth," especially if one of the parties happens to be a less developed country or region.

The neo-classical economists would regard the gains from such a trade agreement as irrelevant to the process of economic growth and development. It is irrelevant to them because international trade is a static process, whereas, development is a dynamic process involving changes over time.

In the case of the EEC-ACP Association,

> a priori judgment regarding the positive effects of the association on trade flow (that is the gains or losses from association--when trade creation outweighs trade diversion or vice-versa) cannot be made without a detailed study of the economies involved.[1]

In order to undertake such a study, data for cost differentials are needed to determine the volume of trade creation and trade diversion. This has proven to be a difficult undertaking. Investigations into trade and trade diversion are even more difficult in the case of the EEC-ACP

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[1] R. G. Lipsey, "The Theory of Customs Union: A General Survey," The Economic Journal, vol. LXX, no. 279, (1960), pp. 496-513.

Association because of the lack of data on costs in the ACP countries. Because of these reasons, this study adopts an alternative method, that of commodity analysis as the prime method of identifying the trade creation (gains) and trade diversions (losses).

The Commodity Analysis

Despite the move by policymakers of the ACP countries to diversify their economies in order to lessen their dependency on the export of primary commodities, such exports, it will be remembered, are of vital importance to the majority of the ACP countries. The general feeling among classical economists is that an introduction of a nil tariff to the export sector of the ACP economies would improve the conditions of these developing countries. This should be examined in relation to the export trend of primary commodities from the developing countries of the ACP group.

The general pattern of trade between the EEC and the ACP countries has long reflected past traditional links which had been developed during the colonial era. The EEC continues to be the main outlet for the ACP's primary commodities as well as the main supplier for consumer and capital goods to the ACP countries. Much of the ACP countries' export trade activity is concentrated on twenty or more commodities which account for over 75 percent of the total ACP exports. The important commodities are coffee, cocoa, groundnuts, tea, oilseeds, tobacco, palm oil and palm kernel oil, sugar, cotton, hides, skins and wood. Minerals and mineral products include: copper, manganese, aluminium, phosphates, diamonds, and zinc. Other products are: crude petroleum and petroleum products. Data in Table 16 show that two to three commodities account

TABLE 16

MAIN EXPORT COMMODITIES OF THE ACP COUNTRIES:
PERCENTAGE OF EXPORTS REPRESENTED BY THE
THREE MOST IMPORTANT COMMODITIES
(1960-1975)

Sub-Region and Country	I		II		III		Total
	Commodities	% of Exports	Commodities	% of Exports	Commodities	% of Exports	
WEST AFRICA							
Dahomey	Palm Kernel Oil	35	Cotton	11	Groundnuts	7	53
Gambia	Groundnuts	43	Groundnut Oil	35	Fodder	19	97
Ghana	Cocoa	66	Wood	10	Diamonds	4	80
Guinea	Iron Ore	90	Aluminum	--	--	--	90
Ivory Coast	Coffee	30	Lumber	21	Cocoa	21	72
Liberia	Iron Ore	72	Rubber	16	Diamonds	5	93
Mali	Live Animals	33	Cotton	23	Fish	14	70
Mauritania	Iron Ore	88	Fish	6	Gums, Resins	2	96
Niger	Groundnuts	63	Live Animals	12	Cotton	5	80
Nigeria	Petroleum	71	Cocoa	12	Groundnuts	3	85
Senegal	Groundnuts	57	Phosphates	8	Fish	6	71
Sierra Leone	Diamonds	63	Iron Ore	12	Palm Kernels	8	83
Togo	Cocoa	35	Phosphates	28	Coffee	17	80
Upper Volta	Live Animals	48	Cotton	16	Groundnuts	6	70
CENTRAL AFRICA							
Burundi	Coffee	82	Cotton	9	Cakes	1	92
Cameroon	Cocoa	25	Coffee	23	Aluminum	9	67
Cont. Af. Rep.	Diamonds	46	Cotton	24	Coffee	17	87
Chad	Cotton	79	Meat	7	Hides and Skins	2	88
Congo	Wood	56	Diamonds	20	Sugar	7	83
Equat. Guinea	Cocoa	46	--	--	--	--	46
Gabon	Petroleum	36	Wood	25	Manganese	17	78
Rwanda	Coffee	54	Tin Ore	23	Tungsten	10	87
Zaire	Copper	61	Diamonds	5	Coffee	4	70

TABLE 16--Continued

Sub-Region and Country	I		II		III		Total
	Commodities	% of Exports	Commodities	% of Exports	Commodities	% of Exports	
EAST AFRICA							
Botswana	Live Animals	80	Hides and Skins	7	Other Animal Products	7	94
Ethiopia	Coffee	58	Hides and Skins	9	--	--	67
Kenya	Wood and Mohair	25	Tea	16	Petrol. Prod.	12	53
Lesotho	Coffee	32	Cattle	22	Diamonds	19	73
Madagascar	Tobacco	29	Vanilla	9	Rice	9	47
Malawi	Sugar	30	Tea	22	Groundnuts	11	63
Mauritius	Live Animals	92	Molasses	3	Tea	3	98
Somalia	Cotton	56	Bananas	27	Hides & Skins	7	90
Sudan	Iron Ore	60	Gum Hasbad	9	Groundnuts	6	75
Swaziland	Iron Ore	26	Sugar	23	Forest Products	19	68
Tanzania	Coffee	17	Cotton	15	Sisal	10	42
Uganda	Coffee	55	Cotton	20	Copper	10	85
Zambia	Copper	95	Zinc	2	Cobalt	1	98
WEST INDIES							
Bahamas	Petrol. Prod.	32	Concrete	12	Sugar and Prod.	5	49
Barbados	Sugar and Prod.	45	Petrol. Prod.	13	Machinery and Trans. Equip.	10	68
Grenada	Cocoa	40	Nutmeg	30	Bananas	24	94
Guyana	Bauxite and Alumina	48	Sugar and Prod.	34	Rice	7	89
Jamaica	Alumina	30	Bauxite	27	Sugar and Prod.	12	69
PACIFIC							
Fiji	Sugar and Prod.	56	Petrol. Prod.	11	Copra Oil	5	71
Western Samoa	Copra	43	Cocoa	34	--	--	77

SOURCES: International Monetary Fund, International Financial Statistics, 1960-1975, Washington, D.C, 1976; United Nations, U.N. Yearbook of International Trade Statistics, 1960-1975, New York, 1976; and Organization for Economic Cooperation and Development, Trade and Commodities, 1960-1975, Paris, OECD, 1976.

for over 90 percent of total export earnings of some countries. Among them are Gambia, Liberia, Mauritania, Burundi, Botswana, Mauritius, Somalia, Zambia, and Grenada. For some eleven countries, this ratio ranges from 89 to 90 percent of total exports.

The ACP countries' dependence on primary commodities is because of two important characteristics. One is the rigidity in the production pattern in most of the ACP countries. Their economic activities are centered around the production of primary commodities for export. Secondly, manufactured and processed goods are of little importance in the export market of the ACP countries because of the low level of industrialization in these countries.

The expansion in ACP exports during the period under review was essentially due to products which received preferential tariff treatment. Thus, some increases in the levels of demand for primary commodities in the EEC occurred but not all members of the EEC increased their demand for primary commodities from the ACP countries.

The Problem of Data

Because of data constraints, the commodity analysis will cover the period from 1960 to 1974, which is prior to the signing of the Lomé agreement. The results of trade flow during this period should provide insights into what may happen in the future under the new agreement, even though the Lomé agreement contains new features such as "non-reciprocity of trade obligations," and the "export revenue stabilization plan."

The period 1960-1974 is important not only because the data is available, but also because one of the first international trade agreements between the EEC and the developing countries was signed in 1964.

The then original six EEC members signed an agreement with 18 African countries and Madagascar. The agreement was initially called the Yaoundé I and was later replaced by the Yaoundé II which was in effect until 1974. During the same period, another group of ACP countries--the then East African Community--signed a similar trade agreement with the EEC called the Arusha Convention. Other trade agreements between the EEC and the Commonwealth Caribbean countries and the Pacific countries were also in effect.

The Seven Major Export Commodities

The seven products for which the developing countries of the EEC-ACP Association has a larger share of the EEC market are coffee, cocoa, tea, sugar, bananas, copper and iron ore. These commodities will provide the bases for the commodity analysis to determine the gains from the present association between the EEC and the ACP countries. As already stated, there are twenty or more commodities which account for over 75 percent of the total ACP export, but it is important to concentrate on the major seven products in order to determine the effect of the Association.

Tropical Beverages

The three main tropical beverages which account for a large percentage of the export earnings of the developing countries of the EEC-ACP Association are coffee, cocoa and tea. These three beverages can be considered as a group for which substitutions can affect the export earnings of the developing countries of the EEC-ACP Association.[1]

[1]Efforts to demonstrate the degree of substitution between these three commodities in the developed countries have been largely successful in recent years.

Therefore, any successful attempt at substitution will mean a decline in exports for the producing countries of the EEC-ACP Agreement, which will have some effect on the gains from the Association.

Coffee

Coffee is an indigenous African crop, but in the last few years Latin America has dominated coffee production. Since 1960, the export of coffee from the ACP countries has been declining while the export of coffee from Latin America has increased steadily. Today, Latin America accounts for about 60 percent of the world production of coffee, and the ACP countries account for about 40 percent.

The ACP countries produce both types of coffee, the robustas and the arabicas. Only Trinidad and Tobago produce robusta coffee exclusively. Arabicas are grown in Kenya, Ethiopia, Rwanda, and Burundi. Several African countries grow both types of coffee, but only Tanzania produces more arabicas than robustas.

About twenty-eight ACP countries export coffee to the EEC. The main exporters are Angola, Ivory Coast, Guinea, Burundi, Rwanda, Ethiopia, Tanzania, Kenya, Madagascar, Uganda, Trinidad and Tobago, Togo and Zaire. The export of coffee is vital to the foreign exchange earnings for these ACP countries. During the period 1960-1964, unroasted coffee from the ACP countries was subject to a duty of 7 percent under the EEC common external tariff (CET) while roasted coffee had a duty of 15 to 18 percent. Between the period 1964-1974, the ACP countries enjoyed a duty-free entry into the EEC market under the terms of the Yaoundé and other conventions. This gave them a trade advantage in the EEC market over other developing countries.

Despite the tariff advantage enjoyed by the developing countries of the EEC-ACP Association, the share of ACP in EEC coffee imports from less developed countries declined slightly from 37.8 percent in 1960-1964 to 29 percent in 1965-1969. Data in Table 17 and Appendix C show that the majority of the ACP coffee exports to the EEC was from the former French colonies. However, certain members of the EEC such as Belgium, the Netherlands and Luxembourg did not levy any custom duties on coffee imports. This had an impact on the total exports of both associate and non-associate members. In 1962, these three countries began levying a 4.8 percent ad valorem tax on coffee imports from non-associated countries. This affected the export pattern of the non-associate countries greatly.

With Yaoundé II in effect in 1969, the share of ACP coffee exports to the EEC increased from 16 percent in 1969-1971 to 26 percent in 1972-1974. This was a 10 percent increase that was partially due to the tariff advantage enjoyed by the ACP countries.

Some of the ACP countries (the AAMS) sacrificed a large percentage of trade advantage they enjoyed in the French market as a result of the international trade agreements signed during 1964-1974. The gain in tariff preference by the ACP countries from 1964-1974 was small and granted in piece-meal fashion. During the period under review, the coffee producing countries of the EEC-ACP Association were considered price-takers for their commodities because of the oligopoly-oligopsony nature of the coffee market. There are a few large sellers like Brazil and Columbia and a few large buyers like the United States, the EEC, and other European countries.

TABLE 17

EEC COFFEE IMPORTS
1960-1974
(In Thousands of U.S. Dollars)

Year	ACP Countries	Other LDCs	EEC Imports in %*
1960	63,174	762,544	8.3
1961	110,011	287,000	38
1962	111,892	369,000	30
1963	180,792	625,000	29
1964	224,665	708,893	32
1965	193,367	702,491	28
1966	228,251	732,766	31
1967	215,819	706,754	31
1968	238,981	762,544	31
1969	192,089	731,852	26
1970	119,072	740,000	16
1971	129,000	2,124,000	6.1
1972	277,897	1,118,517	25
1973	376,452	1,549,086	24
1974	497,839	1,638,756	30

SOURCE: Computed from data in Appendix Co.

*EEC Imports in % = ACP/LDC

The best known coffee prices in the world market are those quoted in the New York Spot Market.[1] Other important markets are in London, but prices in London and other European markets for coffee are not widely reported. Price quotations from Brazilian and Colombian coffee markets are rather artificial because virtually all of the coffee from these countries is sold under contracts with the major importing countries, like the EEC countries. This is one case in which the developing countries of the EEC-ACP Association become price-takers, despite the tariff advantages.

Coffee produced in the ACP countries is mainly of the robusta type, "while the European consumers, with the exception of France, favor arabica coffee."[2] This may affect the gains from the coffee trade. Any trade advantage in coffee enjoyed by the developing countries of the EEC-ACP Association in the EEC market would have to be large to produce a shift from arabica to robusta coffee. An increase in demand for robusta coffee from other developed areas like the United States during the periods of 1958-1962 and 1968-1972 gave the developing countries of the EEC-ACP Association an advantage in that market.[3] Because of these factors, the ACP share of total EEC coffee imports is difficult to interpret and hence caution is warranted.

Cocoa

Cocoa is grown mainly in tropical climates and that makes the ACP countries strong candidates for the production and exportation of cocoa.

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[1]See data in Appendix K.

[2]Communauté Economique Européene, Le Marché du Café, du Cacoa et des Banaues dans les Pays de la CEE, (Bruxelles: CEE, 1963)

[3]See data in Appendix L.

While cocoa is mainly produced in the tropical countries of the ACP, the main comsumption of this product is in the industrial countries. Five countries--Ghana, Nigeria, Brazil, the Ivory Coast, and the Cameroon account for nearly four-fifths of the world's production. Of these five, four are members of the EEC-ACP Association.

Since World War II, the average annual rate of increase in cocoa production has been 3.3 percent. This increase was caused by favorable weather conditions and an expansion in land use. Between 1965-1966 and 1968-1969, there was a decline in cocoa production. By 1969-1970, world production increased again because of the large harvest among the cocoa producing nations of the EEC-ACP Association.[1] The increase in production continued until 1971-1972 and fell again in 1972-1973, due to poor weather conditions.

The developing countries of the EEC-ACP Association export the majority of their cocoa products to the European Economic Community. During the period 1960-1964, cocoa exports grew significantly even though cocoa was subject to a four percent tariff duty in the EEC market. This was not the case during the period 1964-1974 when cocoa products entered the EEC market duty free. Even though cocoa products entered the EEC duty free, it is important to note that there were no concessions under the General System of Preference Scheme (GSP). Cocoa butter and paste were faced with a 2 and 5 percent tariff under the GSP with no GSP tariff concessions.

During the periods 1961-1964 and 1965-1968, the share of ACP in EEC cocoa imports increased from 54 percent to 80 percent[2] even though

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[1]See data in Appendix N. [2]See data in Table 18.

TABLE 18

EEC COCOA IMPORTS
1960-1974
(In Thousands of U.S. Dollars)

Year	ACP Countries	Other LDCs	EEC Imports in %*
1960	158,393	--	--
1961	144,751	800,000	18
1962	141,577	598,000	24
1963	225,939	521,000	43
1964	216,704	167,236	130
1965	192,657	217,535	89
1966	195,857	230,418	85
1967	182,688	290,034	63
1968	284,964	333,017	81
1969	292,173	345,786	84
1970	224,756	433,400	52
1971	211,500	490,500	43
1972	301,101	350,441	86
1973	413,209	504,551	82
1974	661,974	834,771	79

SOURCE: Computed from data in Appendix D.

*EEC Imports in % = ACP/LDC.

the price fell during these periods. It is also clear that the developing countries of the EEC-ACP Association displaced other countries such as Brazil in the EEC market. The share of ACP in EEC cocoa imports increased from 59 percent in 1969-1971 to 83 percent in the three year period ending in 1974.

As in the case of coffee, most of the cocoa exported to the EEC market came from former French and British colonies. Therefore, the developing countries of the EEC-ACP Association welcomed the trade relationship between the two regions. It was welcomed because they (the developing countries) would be able to compete effectively in other EEC markets. Without such trade agreements like the Yaoundé or Lomé, the cocoa products from the ACP countries would have been faced with difficulties in the EEC market.

There is no doubt that the developing countries of the EEC-ACP Association gained preferential treatment for their cocoa in the EEC market within the period under review. This treatment gave them a competitive advantage over other developing countries from Latin America. Prior to the 1964 trade agreement, Germany for example, imported only 3 percent of tropical foodstuffs from the developing countries of the EEC-ACP Association, while France imported 30 percent from the developing countries of the EEC-ACP Association. During the period 1960-1964, Germany had strong trade links with Brazil. The imports of coffee and cocoa from Brazil enabled the Germans to sell a substantial quantity of manufactured goods to Brazil instead of the ACP countries. Another EEC member that was faced with the same problem was Italy. Italy was more interested in trade with Latin American countries than with the developing countries of the EEC-ACP Association.

Another factor which was responsible for creating an atmosphere of trade advantage for the developing countries of the EEC-ACP Association within the period under review was their willingness to respond to price changes in the short-run. The ACP countries were able to "use the tariff advantage to stimulate production in relatively few years."[1]

Tea

Among the developing countries of the EEC-ACP Association, the East African countries account for two-thirds of the tea production. These countries include Kenya, Malawi, Mozambique, Tanzania, Uganda and Zaire.

In Kenya, Uganda, and Tanzania, tea production has displaced sisal since 1964 as the second most important foreign exchange earner after coffee. This is also true for other producing countries. Bad weather prevented an increase in tea production and exports in 1965; but an improvement in the weather in 1966 changed the picture. Production rose again in 1966 to the 1964 level but export earnings for the developing countries of the EEC-ACP Association did not improve because the average price for tea continued to decline.[2]

The major outlet for tea from the ACP countries has been the EEC market. The United Kingdom dominates the market for tea imports in the EEC, which accounted for approximately 28 percent of the tea imports in 1973. In 1971-1973, for example, the United Kingdom alone accounted for

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[1] J. R. Behrman, "Monopolistic Cocoa Pricing," American Journal of Agricultural Economics, vol. 50, no. 3 (1968), p. 704.

[2] See data in Appendix O.

18 percent of total world consumption, of which 75 percent was imported from the developing countries of the EEC-ACP Association.

In general, the absolute per capita consumption among the EEC members has been declining in recent years. This is due "partly to the diversification of tastes in favor of coffee (particularly instant coffee) and soft drinks."[1] The most interesting aspect about the tea market is that the demand for tea is not highly responsive to changes in either price or income. The "overall price elasticity of demand has been estimated at between 0.2 and 0.4 percent."[2] This does have an effect on the exportation of tea by the developing countries of the EEC-ACP Association.

The average price for tea in 1963 was 53.2 cents per pound. The demand for tea declined during the same period because aggregate production growth was about 2.9 percent while aggregate demand was only 2.0 percent. Twelve years later, the price for tea dropped to 44.0 cents per pound.[3] This, of course, was the first 12 years of the Association between the EEC and the developing countries. This price decline affected the export earnings of the developing countries of the EEC-ACP Association, even though the Yaoundé and Arusha tariff concessions were in effect and required such products as tea to be imported into the EEC duty-free.

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[1]R. J. Ball and R. Aqarwala, An Econometric Analysis of Demand for Tea in the United Kingdom (London: Ogilvy and Mather Ltd., 1959) and FAO, "Trends in Tea Consumption--The United Kingdom," Nov. 29, 1968.

[2]FAO, Ad Hoc Working Party on International Agreements for Stabilization of Tea Prices, (Rome, March, 1969).

[3]See data in Appendix O.

An important observation in the trade relationship between the EEC and the then Yaoundé and Arusha countries is that the duty-free advantage was reduced because of the Generalized System of Preference (GSP) which was applied by the EEC together with the other developed countries. The GSP was adopted at the first UNCTAD session in 1964 by Japan, Norway, New Zealand, Sweden, Switzerland, Austria, Canada, and the United States. The provisions of the GSP called for a zero tariff on all manufactured goods from the LDCs to the developed countries. Therefore, this provision offset the advantages of the Yaoundé and Arusha Conventions by providing more markets for the products from the developing countries.

EEC imports of tea from the developing countries of the EEC-ACP Association remained fairly constant during the period under review, while there was some increase from other developing countries.[1] The main ACP exporters of tea are Kenya, Uganda and Tanzania, all former British colonies. These countries were granted some tariff preference for their exports to Britain before Britain became a member of the EEC. These tariff preferences were in the form of guaranteed prices for the export of tea into the United Kingdom. Other exporters were former French colonies such as Zaire. Zaire was granted quotas for its exports to France at a guaranteed price higher than the world market price. The guaranteed price for former French colonies was maintained until 1967. These guaranteed prices were lowered gradually during the period under review, and in the case of the former English colonies, the tariff preferences were eliminated when the United Kingdom became a member of the EEC.

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[1]See data in Table 19.

TABLE 19

EEC TEA IMPORTS
1960-1974
(In Thousands of U.S. Dollars)

Year	ACP Countries	Other LDCs	EEC Imports in %*
1960	12,578	353,674	3.6
1961	217	256,726	.8
1962	1,937	159,778	1.2
1963	23,659	345,997	5.4
1964	24,693	330,012	6.1
1965	35,144	25,082	117
1966	47,808	299,986	135
1967	27,762	318,971	5.9
1968	51,490	295,425	141
1969	51,702	226,000	23
1970	--	--	--
1971	235	11,623	2.0
1972	74,765	224,288	33
1973	75,841	234,561	32
1974	64,658	275,887	23

SOURCE: Computed from data in Appendix E.

*EEC Imports in % = ACP/LDC.

Sugar

Sugar is the life-blood of the economies of some developing countries. It is exported to the EEC from the following countries: Zaire, Uganda, Madagascar, Swaziland, Barbados, Fiji, Guyana, Mauritius, Jamaica, Kenya, Madagascar, Malawi, Tanzania and Trinidad and Tobago.

Sugar is characterized by a number of complexities and was singled out for specific treatment in the signing of the Yaoundé and other conventions between the EEC and the ACP countries. Some of these complexities include a variety of preferential treatments granted by the U.S. to the Caribbean countries and by the United Kingdom to the Commonwealth countries and by the French to the French speaking countries of the EEC-ACP Association. The Caribbean countries have exported significant amounts of sugar to Britain under a fixed price because of the British Commonwealth Sugar Agreement (CSA), which was eliminated with the signing of the Lomé in 1975.

It has been important to the developing countries of the EEC-ACP Association to continue receiving preferential treatment for the export of sugar to the EEC, despite some objections from France. "The existence of adequate export markets at remunerative prices is essential"[1] if the developing countries of the EEC-ACP Association were to effectively compete with sugar from Australian and Indian sugar markets. This concern for continuous preferential treatment can be seen in the data of Table 20 which show a decline in sugar imports from the ACP countries.

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[1]For a summary of the world sugar markets, see Harris and Smith, World Sugar Market in A State of Flux, Trade Policy Research Centre, London: 1973.

TABLE 20

EEC SUGAR IMPORTS
1960-1974
(In Thousands of U.S. Dollars)

Year	ACP Countries	Other LDCs	EEC Imports in %*
1960	76,264	309,694	25
1961	77,549	315,661	25
1962	75,033	303,727	25
1963	80,117	777,304	10
1964	70,826	458,696	15
1965	59,231	309,642	19
1966	52,602	309,879	17
1967	53,122	286,116	19
1968	48,478	262,353	18
1969	52,700	270,854	19
1970	53,017	418,367	13
1971	58,270	452,909	13
1972	65,890	383,826	17
1973	69,885	521,992	13
1974	58,903	801,585	7.3

SOURCE: Computed from data in Appendix F.

*EEC Imports in % = ACP/LDC.

The share of ACP in EEC sugar imports from less developed countries has continued to decline since the pre-Yaoundé period, 1960-1963. There was a decline from 21 percent in the 1960-1963 period to 17 percent in the 1964-1967 period, and a further decline to 15 percent in the period of 1968-1971. The share of ACP countries in EEC sugar imports further declined from 15 percent in the 1968-1971 period to 10 percent in the 1972-1974 period. This decline occurred even though the ACP countries enjoyed a special treatment advantage in the EEC market between 1964 and 1974.

This decline can be explained by the diversion of large quantities of cane at higher prices,[1] especially cane produced by small farmers and large plantation owners, and because of competition from other producing countries.[2] Production costs were much higher in the developing countries of the ACP than in other producing countries; therefore, if sugar exports from the developing countries of the EEC-ACP Association to the EEC were to increase, the industry would require continuous protection. Raw sugar was subjected to tariffs in the EEC as well as under the GSP during the period reviewed. However, the Commonwealth countries of the ACP group continued to receive preferential treatment for their exports of sugar to Britain until the end of the Yaoundé Convention and the signing of the Lomé.

Bananas

Somalia, the Ivory Coast, the Cameroon and Zaire are the major exporters of bananas to the EEC. As in the case with coffee and cocoa,

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[1] See data in Appendix P.

[2] See data in Appendix P.

most of the banana exports went to France under the preferential treatment granted to her former colonies. The second largest market for bananas from the ACP countries during the period under review was Italy. Between 1967 and 1968, about 37 percent of the total banana exports to the EEC went to the Italian market.

The exporting of bananas to the EEC market during the period 1960-1964 was a complex matter. It was complex because not all EEC members provided preferential treatment for banana exports from the developing countries of the ACP countries. While the French and the Italians provided some form of preferential treatment, former French colonies such as the Ivory Coast and the Cameroon exported bananas to France duty-free. Somalia, being a former Italian colony, received a 36 percent tariff advantage for all bananas exported to Italy. In the case of Zaire and other small exporters like Rwanda and Burundi, a 15 percent advantage was granted to banana exports by the Benelux countries.

The international trade relation that started in 1964 between the EEC and the developing countries of the ACP sought to put an end to the different tariff preferences that the various EEC members were granting other developing countries. It became a difficult task for the EEC since Germany imported most of its bananas from Latin America (Brazil and Colombia). These countries were considered as non-associate members under the various conventions.[1] Germany was able to levy a tariff of 6 percent on all imported bananas from non-associate members. This

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[1]These conventions include the Yaoundé Convention, the Arusha Convention and later the agreement between the EEC and Caribbean Free Trade Association.

percentage was doubled to 12 percent in 1966 for non-associate members. Since Germany accounts for two-thirds of the total EEC banana imports, this provision had a tremendous impact on the export market of the developing countries of the EEC-ACP Association. It was difficult for the ACP countries to capture the German market and to compete effectively with the Latin American countries.

There were also non-economic factors such as taste that affected the export market of the ACP countries. The Germans favored bananas from the Latin American countries to the ACP products. As a result, the demand for ACP bananas was not encouraging during the period under review.

Data in Table 21 verify the fact that the share of ACP in EEC banana imports declined from 71 percent in the 1963-1966 period to 14 percent in the 1967-1969 period. This share of imports continued to decline to 10 percent in the three-year period ending in 1974. These developments provide evidence that the ACP countries were displaced by competing countries for the EEC demand for bananas. This happened even though the developing countries of the EEC-ACP received a tariff advantage for their exports to the EEC.

As mentioned above, measuring the benefits from banana trade received by the developing countries of the EEC-ACP Association is a complex matter. Such an evaluation cannot be solely based on tariff preferences, but institutional factors such as taste and marketing arrangements must also be considered. These factors seem to have outweighed the tariff preferences the ACP countries received.

TABLE 21

EEC BANANA IMPORTS
1960-1974
(In Thousands of U.S. Dollars)

Year	ACP Countries	Other LDCs	EEC Imports in %*
1960	--	--	--
1961	--	--	--
1962	--	--	--
1963	64,752	29,000	223
1964	51,259	227,523	23
1965	68,349	304,487	22
1966	52,202	314,586	16
1967	50,560	322,306	16
1968	33,606	286,032	12
1969	43,640	290,555	15
1970	--	--	--
1971	--	--	--
1972	48,053	355,476	14
1973	46,202	413,925	11
1974	27,508	467,825	6.0

SOURCE: Computed from data in Appendix G.

*EEC Imports in % = ACP/LDC.

Copper

The international copper market is one in which the developing countries of the EEC-ACP Association might obtain limited benefits. The expansion of mining activities and processing facilities are costly undertakings requiring a long time for return on investments. The four major world producers are Zaire, Zambia, Chile and Peru. Of these four, the two ACP members, Zaire and Zambia, account for 18 percent of the world production of copper and Chile and Peru account for another 18 percent. These four major world producers account for 78 percent of the copper exports to the EEC.

One-half of Zaire's copper production is exported to Belgium and the other EEC members, and the other half to the United States and Canada. Zaire's copper production has increased steadily since 1964, mainly due to a rise in the price of copper in the World market. Most of the copper produced in Zambia is exported to the United Kingdom.

The production of copper from scrap in the developed countries will reduce the market strength of the developing countries of the EEC-ACP Association. World resources of copper are large and a substantial part is in the developed countries. Exploitation of these resources could become attractive if prices continue to rise, as has been the case since 1966. In the final analysis, when the developed countries enter the market, this will mean a reduction in the share of the ACP countries in the EEC and world markets. Prices will decline and that would mean a reduction in export receipts for these countries.

It seems clear that the position of the EEC market for copper from the two major exporting ACP members, Zambia and Zaire, has remained fairly stable with the exception of a slight decline in 1961, 1962, 1966 and 1969.[1] The share of ACP countries in EEC copper imports from less developed countries has declined in the 1965-1969 period from its record figure of 91 percent, but increased in the 1972-1974 period to 87 percent. Like most other crude minerals, copper entered the EEC duty-free from 1964-1974.

Iron Ore

Iron ore is one of the major export commodities for four countries of the EEC-ACP Association. The main exporters of iron ore are: Guinea, Liberia, Mauritania and Swaziland. In these countries, iron ore exports as a percent of total exports have been about 90 percent, 72 percent, 88 percent and 22 percent respectively.[2]

In terms of the possible impact on international prices and on export earnings, iron ore is obviously of great significance to the economies of these countries. Although iron ore is of great importance to their export earnings, some of the producing countries of the EEC-ACP Association did not begin their mining activities until 1960. Since 1963, the volume and value of production and exports have risen steadily. The total export of the developing countries of the EEC-ACP Association in 1969 was approximately 30 million tons. This increase in production was a direct result of the increase in demand for iron ore mainly from the EEC.

The share of ACP in EEC imports of iron ore declined sharply from 1.05 percent in the 1960-1963 period to .47 percent in the 1964 - 1969

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[1] See data in Table 22. [2] See data in Table 16.

TABLE 22

EEC COPPER IMPORTS
1960-1974
(In Thousands of U.S. Dollars)

Year	ACP Countries	Other LDC's	EEC Imports in %*
1960	--	--	--
1961	206	344	60
1962	136	80	170
1963	429,284	991,027	43
1964	--	--	--
1965	3,000	28,527	11
1966	753	40,329	1.9
1967	--	--	--
1968	--	--	--
1969	903	37,885	2.3
1970	--	--	--
1971	--	--	--
1972	7,320	35,696	21
1973	112,752	63,104	179
1974	1,567,787	2,552,419	61

SOURCE: Computed from data in Appendix H.

EEC Imports in % = ACP/LDC.

period.[1] The relative importance of iron ore is its dominance in the Japanese and EEC markets, which accounts for some 70 to 80 percent of world imports.

Iron ore is in a lesser position of strength than copper in the EEC market because the EEC countries have very limited potentials for domestic production of copper. This is also true for Japan; however, the United States is self-sufficient in copper. The iron ore supply has shifted in recent years to a number of new producers like India and Brazil. Therefore, any price action by developing countries of the EEC-ACP Association would have to be joined by these other developing countries. Even then the success of such action is in doubt. The demand for iron ore has not grown at the same rate as steel production due to the increasing use of scrap.

Other Primary Commodities

Other primary commodities supplied by the developing countries of the EEC-ACP Association in significant amounts to the EEC and the rest of the world market are groundnuts, palm kernel and cotton. These products did not receive any tariff preference prior to the associations that began in 1974, although they had benefited from special arrangements in France and Italy and later in the United Kingdom.

Groundnuts

Groundnuts represent about three-fourths of export earnings for 17 developing members of the EEC-ACP Association. The principal producers and exporters are Senegal, Mali, Niger, Upper Volta, Togo, Dahomey,

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[1] See data in Table 23.

TABLE 23

EEC IRON ORE IMPORTS
1960-1974
(In Thousands of U.S. Dollars)

Year	ACP Countries	Other LDCs	EEC Imports in %*
1960	3,072	806,782	3.8
1961	22,763	100,000	23
1962	25,515	254,431	10
1963	64,998	667,107	9.4
1964	146,228	2,110,332	6.9
1965	191,912	445,867	43
1966	347,166	398,855	87
1967	204,953	392,716	52
1968	203,531	417,805	49
1969	210,582	465,889	45
1970	--	--	--
1971	--	--	--
1972	277,364	685,075	44
1973	340,621	826,451	41
1974	565,477	2,453,692	23

SOURCE: Computed from data in Appendix I.

*EEC Imports in % = ACP/LDC.

the Cameroon and Madagascar.[1]

Production and exportation of groundnuts have fluctuated widely among the developing countries of the EEC-ACP Association since 1960. The principal sources of this fluctuation have been changes in climate and in the area of cultivation. Since 1964, production of groundnuts has increased in the various producing countries. In Dahomey for example, production has increased steadily since 1965, partly due to the implementation of a program to develop cash crops in the country. One such program was the Société d'Aide Technique et de Cooperation (SATEC). Not all of the increased production of groundnuts was due to the implementation of domestic programs such as SATEC. In the case if Niger, the EEC sponsored agricultural programs under the Yaoundé Convention in the 1964-1965 period contributed to the expansion of groundnut cultivation from 320,000 acres to 365,000 acres in the 1964-1965 and 1967-1968 periods respectively.

As in the case of coffee, the main ACP exporters of groundnuts to the EEC were former French colonies. These countries were granted quotas for their exports to France at a guaranteed price higher than the world market price. Shelled and unshelled groundnuts entered the EEC market duty-free during the period of 1964-1974, but a by-product of groundnut, groundnut oil, was faced with a duty ranging from 5 to 20 percent depending on usage and packaging.

Although the French's guaranteed price support was carried on until 1967, this support was lowered gradually during the period under review. Therefore, the quota allocated was extended to include other developing countries of the EEC-ACP Association, specifically those who

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[1]See data in Table 16.

belonged to the Yaoundé and Arusha Conventions. This move forced the main producers to sell in other markets at lower prices.

To facilitate the transition brought about by the Yaoundé Convention, the EEC instituted a financial aid program for agricultural production during the 1964-1975 and 1968-1969 periods. The EEC aid for agricultural production included price support subsidies and subsidies for structural improvements. In the 1965-1966 period, Niger exported 133,200 tons of groundnut, of which 100,200 tons were exported to France and 33,000 tons to other EEC members and the rest of the world. However, in the 1966-1967 period, exports rose to 175,000 tons, with about 150,000 tons exported to France and 24,600 exported to other EEC members and the rest of the world. In line with the EEC program of reducing costs, the producers' prices were lowered in the 1966-1967 period in most of the groundnut producing states of the EEC-ACP Association. At the same time, several of these producing nations benefited from the preferential trade agreement with France until the 1966-1967 period because the EEC was slow in drawing up a common oil price policy.

The guaranteed price for groundnuts was based on a schedule providing gradual reductions in the price each year; but with the help of the EEC subsidies, the producing nations of the EEC-ACP Association remained unchanged until the 1966-1967 period.

After the 1964-1965 period, the terms of the Yaoundé Convention were to sell groundnuts at world prices, and preferential treatment by France was to cease. During the same period, world market prices for groundnuts dropped by about 20 percent, and the Associated ACP countries had to sell their crops at a loss. France agreed to take up Togo's entire exportable surplus of groundnuts at a guaranteed price. After the French's price guarantee was discontinued, Togo received less than the guaranteed price from France in the years under review, and this was attributed to the fact that the quality of exports did not measure up to the specification in the agreement.

Consequently, net losses on groundnuts increased from about 1 percent of the cost in the 1964-1965 period to 26 percent in the 1967-1968 period. In the 1968-1969 period, a 37 percent rise in world market prices resulted in a small profit.

Palm Oil and Palm Kernel Oil

Palm products, mainly palm oil, palm nut oil, and palm husks, are among the key cash crops of some developing countries of the EEC-ACP Association. Exports have declined in recent years as an increasing proportion of the products are being diverted to the domestic market for the manufacture of soap, margarine, and cooking oil. Whereas in 1960, just over 75 percent of the palm oil produced was exported by the producing countries of the EEC-ACP Association, and by 1967, this proportion had declined to 64 percent. Palm oil producers from the developing countries of the EEC-ACP Association were faced with tariffs from 4 to 6 percent in the EEC market. This tariff preference did not encourage the expansion of palm oil and palm kernel oil products significantly during the period under review. At the same time, the producers of palm oil and palm kernel oil did not receive any GSP concession.

The world market price for palm oil continued to decline in the 1967-1968 period primarily because of the increased use of substitutes, but palm kernel oil rose substantially during this period. The rise of palm kernel oil during this period (1967-1968) gave the producing nations of the EEC-ACP a profit, which largely offset the losses incurred from other palm products.

Palm products continued to be one of the most important cash crops for the producing nations of the EEC-ACP Association. Most of the palm products have been exported to the EEC. The total exports from the ACP countries to the EEC fell from a peak of 74 percent in 1964 to 50 percent four years later because of a reduction in palm production during the 1966-1967 period and the fact that the producing countries invested heavily in the production of other cash crops such as groundnuts. Investments were made during this period in response to the increase in demand for such crops as groundnuts in the EEC market. The higher world market prices in 1968 increased the production and exportation of palm products to approximately the 1964 level.

Cotton

Most of the raw and lint cotton exported to the EEC market comes from the African countries. Cotton production is of special importance to the economies of Burundi, Cameroon, Central Africa Republic, Chad, Nigeria, Sudan, Tanzania, Uganda, and Upper Volta.[1] Very little is produced by the Caribbean and Pacific members of the EEC-ACP Association.

As in the case of other products, half of the cotton produced and exported to the EEC prior to 1964 was from former French colonies. France provided financial support for these countries during the pre-Yaoundé years. The French government agreed to subsidize any losses

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[1]See data in Tables 16 and 24.

TABLE 24

EEC COTTON IMPORTS
1960-1974
(In Thousands of U.S. Dollars)

Year	ACP Countries	Other LDCs	EEC Imports in %*
1960	133,027	--	--
1961	62,653	313,720	19
1962	65,653	449,217	15
1963	94,589	451,566	21
1964	76,216	456,044	17
1965	49,677	438,724	11
1966	95,467	499,673	19
1967	103,753	445,716	23
1968	184,956	478,431	39
1969	90,850	520,546	17
1970	80,936	621,800	13
1971	--	--	--
1972	85,896	391,810	22
1973	104,546	498,851	21
1974	129,491	675,890	19

SOURCE: Computed from data in Appendix J.

*EEC Imports in % = ACP/LDC.

incurred by the "Cotton Stabilization Fund."[1] Another financial aid was in the form of premiums, which were paid as "planting premiums" to cotton producers in order to stimulate production and exportation. In general, there were no special preferences in the form of quotas or tariff protection for the cotton producers.

The attainment of the production goals by the EEC and the associate producers was hampered in the 1964-1965 and 1965-1966 periods because of the decline in production during these periods.

Bauxite and Alumina

Bauxite and alumina have been important sources of economic growth and foreign exchange for two main producing countries of the ACP countries--Jamaica and Guyana. Bauxite and alumina contribute about 17 and 31 percent respectively to their gross domestic products. Most of the bauxite and alumina have been exported to non-EEC members such as the United States and Canada, even though they enjoy a tariff preference in the EEC market.

An estimated 90 percent of Jamaica's and Guyana's bauxite and alumina is exported to the United States and Canada, and this represents 40 percent of the total world production. For fear of losing out to other competitors such as Australia, the producing countries of the ACP are determined to get as much benefit as possible from more favorable tax payments from non-EEC members because the mining sector has been almost totally controlled by major international companies

[1]The Cotton Stabilization Fund was established by the cotton producing nations to assist its members. One purpose was to stabilize cotton prices and to provide production policies.

It is apparent that the ACP countries were exporting the majority of their bauxite and alumina to non-EEC members like the United States. Transportation costs are less expensive, and imports of alumina into the United States are subject to a duty of 1 to 1.2 percent per pound, while those that are imported by the EEC are subject to a 7 percent duty.

Conclusions

The result of the above Commodity Analysis is not consistent with the traditional argument that a trade association is an engine for growth because the demand for primary commodities did not grow as rapidly as was expected.

There was a variety of factors responsible for the slow growth of the export market for primary commodities. Supply inflexibilities in the developing countries of the ACP, for example, were responsible for the slower growth rate of their exports to the EEC during the period of association. Other factors such as competition from Latin America and other developed countries outside the EEC also had some effect on the slow growth rate of the export sector.

Moreover, the Commodity Analysis revealed some re-direction of ACP exports from other markets to the EEC markets as a result of the duty-free provision provided by the trade association. At the same time, the introduction of the Common External Tariff (CET) reduced some of the preferential treatment that the ACP countries enjoyed which further encouraged the re-direction of exports in the first place.

Therefore, although trade can still contribute to the economic development of the ACP countries, the above analysis suggests limited gains for the LDCs of the ACP group.

CHAPTER VII

THE GAINS FROM TRADE:

COMMODITY-TERMS-OF-TRADE

The classical economists have treated the international trade relations as an "engine of progress" for developing countries. They also have believed that international trade is a vent for surplus produce and a means of expanding divisions of labor by widening the markets, and that it "serves as a transmission belt for the transfer of the benefits of industrialization and modern technology from the advanced to the developing countries."[1]

There are serious doubts as to the correctness of these statements when applied to the trade relationship between the EEC and the developing countries of the ACP. As a matter of fact, such doubts were expressed by Raúl Prebisch and other economists in three U.N. publications.[2] Prebisch argues that

> price and trade statistics for countries producing primary goods have shown a secular trend in the terms of trade over the last seven or eight decades, and this has affected adversely the level of national income in these countries.[3]

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[1]H. Myint, "The Classical Theory of International Trade and the Underdeveloped Countries," Economic Journal, June 1958, pp. 317-37.

[2]Raúl Prebisch, Economic Survey of Latin America, (U.N., 1950); The Development of Latin America and Its Principal Problems, (U.N., 1950); and The Relative Price of Exports and Imports of Underdeveloped Countries, (U.N., 1949).

[3]See Prebisch, (U.N., 1950). Other supporters of these views are: Singer, "The Distribution of Gains between Investing and Borrowing

Opposition to the Prebisch views comes from Kindleberger and others. They believe that "price experiences of a single country cannot be generalized into a theory of terms of trade."[1] Haberler, who has also argued against the Prebisch views, advocates that, "movements of terms of trade during a particular historical period do not imply that terms of trade are necessarily moving against developing countries."[2] Therefore, this chapter will examine the implications of trade association on the terms of trade of the ACP countries, and what effect it might have on the developmental planning of these developing countries.

The Terms of Trade Controversies

The traditional debate on the terms of trade among members of an integrated area is based on the concept of the so called "outward looking" way of development in which exports are concentrated on a few traditional products. This concept does not offer a good perspective because, with few exceptions, the export products of the LDCs have been characterized by instability because of price variations and/or production fluctuations. Another reason for which this argument is of questionable

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Countries," AER, Papers and Proceedings, May, 1950, pp. 473-485; Arthur Lewis, "World Production, Prices and Trade, 1870-1960," Manchester School of Economics and Social Studies, May, 1952; and Gunnar Myrdal, An International Economy, (Harper Brothers, 1956), and Rich Lands and Poor, (Harper Brothers, 1957).

[1]Charles Kindleberger, The Terms of Trade, A European Case Study, (John Wiley and Sons, 1956), T. Morgan, "The Long Run Terms of Trade Between Agriculture and Manufacturing," Economic Development and Cultural Change, Oct., 1959, pp. 1-23; and Ellsworth, "The Terms of Trade between Primary Producing and Industrial Countries," Inter American Affairs, Summer, 1956, pp. 15-35.

[2]Gottfried Haberler, International Trade and Economic Development, (Cairo, 1959), p. 20.

merit is that the economic growth pattern of the LDCs depends heavily on the economic situation in the industrial countries.

The alternative for the LDCs is to produce the needed products and expand their domestic markets with the goals of diversifying their economies and ultimately altering their own comparative advantages. Criticisms of this approach are quite numerous. For example, differences in income elasticities can be offset by differences in the rates of growth in income. The capacity to import is also a function of the inflow of foreign capital, the terms of trade, and the ability to replace imports of non-manufactured goods with imports of manufactures as well as the ability to increase export earnings.

The Prebisch Theory

In his theory on international trade, Raúl Prebisch rejected the classical economists' fundamental assumption of international division of labor. The assumption states that benefits of technical progress would be shared by all members of the world community through lower prices for goods and services or through increases in incomes. Prebisch argued that this is simply not the case because over the last decade, industrial nations have increased their productivity, but have not lowered their prices as the traditional classical theory suggests. Prebisch's reasons for this is the demand for higher wages by labor unions in the industrial nations. He further adds that the developing countries use little organized labor in their economies, and because of this, labor unions in these countries are unable to demand higher wages.

The alternate result is that productivity in the developing countries will increase very slowly as compared to the more rapid increases in advanced countries. Therefore, the prices for primary commodities from the developing countries will increase slowly or even fall, while prices for manufactured goods will increase rapidly or stay at least constant.

On this basis, Prebisch rejects the traditional theory of comparative advantage. He points out that if the developing countries were to accept the classical theory of specialization in primary products, the situation would be worsened. He further suggests that specialization in the production of primary products would add to the already deteriorating trend in the terms of trade, and that industrialization is the only way to correct the worsening terms of trade.

Prebisch's results and conclusions were based on the export-import price data for the United Kingdom between 1876 and 1947.[1] The study revealed that during this period, prices for primary products declined while manufactured product prices rose to such an extent that the buying power of the primary producing countries declined by 37 percent. In short, Prebisch said, "While the centers 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."[2]

Basically, the Prebisch theory recommends that "the division of labor is theoretically sound; but it is usually forgotten that it is

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[1]U.N. Department of Economic Affairs. Relative Prices of Imports and Exports of Underdeveloped Countries, (New York, 1949), pp. 13-24.

[2]Ibid.

based upon an assumption which has been conclusively proven false by facts."[1] According to the theory, technological progress must be distributed among all parties with special attention going to the developing nations. The developing countries, the theory claims, need special assistance because the developed countries are more able to absorb the fruit of technological advances. Therefore, the Prebisch theory contends that rather than argue about the issues of terms of trade, it would be better to establish a mechanism to stabilize prices in the export market of primary commodities and that the way to achieve this would be through international trade agreements. The theory also accounts for the dangers of dependence on a single consumer as far as international trade agreements are concerned.

Another point made by the theory was that the developing countries should give more attention to the production and exportation of manufactured goods, so as to eliminate obstacles which in the past have hampered exports. Policymakers should also provide these industries all the necessary incentives, Prebisch claims, that are necessary in order to buy time for the new industries to cope with high initial costs. These are only temporary measures until the industries achieve self-sufficiency.

Finally, the Prebisch theory addresses the relationship between the inflow of capital to underdeveloped countries and the deterioration of the terms of trade. The deterioration of the terms of trade makes the inflow of capital into the developing countries ineffective for economic

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[1]Gerald M. Meier, Leading Issues in Economic Development (Oxford University Press, 1970), p. 339.

development.

Opponents to the Prebisch Theory

Opposition to the Prebisch theory has come mainly from two classical economists, Morgan[1] and Haberler.[2] Morgan has criticized Prebisch's high money wage assumption by stating that higher money wages do not necessarily cause higher domestic prices as Prebisch has assumed. Morgan also claims that Prebisch's suggestion of labor organization affecting price levels is not always the case. On the contrary, he projects that international prices are determined by world supply and demand. He also feels that it has been proven that high labor cost drives some products out of the market, and these products are replaced by less-expensive substitutes which could encourage new competitors to enter the market.

Another criticism is that from Haberler, who suggests that Prebisch's data are misleading and too limited to support his generalizations. Haberler does not consider the United Kingdom's experience as necessarily applicable to all developed countries. He further observed that Prebisch's data do not take into account the secular doctrine in incoming transportation rates, a factor in itself that might explain much of the decline in the terms of trade. Haberler then suggests that the best possible measurements of terms of trade are the "income terms of

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[1] T. Morgan, "The Long Run Terms of Trade between Agriculture and Manufacturing," Economic Development and Cultural Change, vol. VIII, Oct., 1959, pp. 1-23.

[2] Gottfried Haberler, "Terms of Trade and Economic Development," in H. S. Ellis (ed.), Economic Development for Latin America (New York: St. Martin's Press, 1961), pp. 275-296.

trade"[1] and the "single factor terms of trade"[2] and that both of these measurements could show an entirely different pciture.

Commodity-Terms-of-Trade

Frequently, the case against a trade association between developed countries and developing countries is based on the proposition of a long-term secular decline in the developing partner's terms of trade. Since the developing countries of Africa, the Caribbean, and Pacific have signed a trade agreement with the European Economic Community, we will try to establish whether this agreement will cause any changes in the developing

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[1]A simple definition for "income term of trade" would be "the volume of imports obtainable with total export earnings." According to Yotopoulos and Nugent, Economics of Development: Empirical Investigation, pp. 341-42, income terms of trade is equal to:

$$N_y = \frac{\dfrac{P_{x1}}{P_{xo}} \quad \dfrac{Q_{x1}}{Q_{xo}}}{\dfrac{P_{m1}}{P_{mo}}}$$

Where P_x = the price of export, Q_x = the quantity of exports and P_m = import price.

[2]A simple definition for "single factor terms of trade" would be "the volume of import obtainable by a net of factors used in producing an export product." According to Yotopoulos and Nugent, single factor terms of trade is equal to:

$$S = \frac{\dfrac{P_{x1}}{P_{xo}} \quad \dfrac{R_{x1}}{R_{xo}}}{\dfrac{P_{m1}}{P_{mo}}} = N \frac{R_{xo}}{R_{xo}}$$

Where P_x = the price of exports, R_x = the resulting index, P_m = the price of imports and "net bata terms of trade" = N.

countries' terms of trade. Because the developing countries of the EEC-ACP agreement are mainly primary producers, "it is a matter of historical fact that the trend of prices has been heavily against the sellers of food and raw materials and in favor of the sellers of manufactured articles."[1] Kindleberger in his critique of Baldwin emphasizes that this example makes the implicit assumptions that one country is rich, the other poor and the two goods have very different income elasticities. This, of course, is precisely the situation existing between the developing countries of the ACP and the EEC.

In many cases, however, the terms of trade will shift against the developing countries because they are faced with an inelastic export supply in the short-term. The result of this will probably be a decline in imports. Before reaching a conclusion about the nature of terms of trade between the EEC and the ACP countries, a detailed examination is necessary.

Viner defines commodity terms of trade as "the physical amount of foreign goods received in exchange for one physical unit of export goods."[2] This study will denote the index of export prices "Yx" and import prices by "Ym." The commodity terms of trade will be designated by "T." As far as measuring the terms of trade, the period 1960-1974 has a number of advantages such as the availability of dependable data on indexes of export and import prices. Secondly, during this period, the EEC was in

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[1] Robert E. Baldwin, "Secular Movements in the Terms of Trade," AEA Proceedings, American Economic Review, vol. XLV, May, 1955, pp. 259-268.

[2] Jacob Viner, Studies in The Theory of International Trade, (New York: Harper and Brothers Publishers, 1937), pp. 555-70.

the process of expansion, and most of the ACP countries were going through Rostow's[1] second stage of economic development or the preconditions for take-off.[2] Even though the characteristics for a precondition for take-off requires the utilization of modern technology and the accumulation of capital, the productivity of labor among these countries remained low. The reason productivity of labor was low is because the majority of the population was engaged in subsistence farming, and they remained poor and backward. According to the Prebisch-Singer-Myrdal thesis, it is this backwardness that has caused the terms of trade to move against them.

Land-locked and Island Countries
Terms of Trade

Data in Table 25 show annual changes for selected land-locked and island countries of the EEC-ACP Association for 1960-1974. They also reveal a great deal of fluctuation in the terms of trade among the land-locked and island countries.

In the Central African Republic, the deterioration in the terms of trade from 1960 to 1970 and from 1972 to 1974 was mainly due to the rise in import costs. Exports to its major EEC trading partner--France declined from 1960 to 1974 while imports remained constant or increased slightly.

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[1]W. W. Rostow, The Stages of Economic Growth, (Cambridge University Press, 1960), pp. 4-16.

[2]According to Rostow, the precondition for take-off "is when the traditional society is transformed in ways that can enable it to utilize modern technology and to accumulate capital."

TABLE 25

TERMS OF TRADE WITH THE EEC OF SELECTED LAND-LOCKED AND ISLAND COUNTRIES OF THE EEC-ACP ASSOCIATION, 1960-1974

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
AFRICAN MEMBERS															
Chad	69.57	138.4	44.0	48.8	59.0	80.0	67.0	76.4	84.6	93.1	64.7	14.2	66.6	2.3	64.8
Cen. Africa Rep.	19.6	22.3	36.0	34.1	30.2	31.4	44.1	87.5	79.7	54.7	31.7	24.0	29.1	58.9	76.0
Gambia	16.6	192.3	588.8	637.5	600.0	246.1	185.7	405.0	120.0	162.5	155.5	140.0	136.3	146.6	166.2
Guinea Bissau	114.2	162.5	105.0	178.5	105.0	57.1	45.7	152.7	33.3	33.3	0	0	0	0	0
Guinea	120.0	77.4	60.9	73.5	NA	40.1	40.6	39.8	41.1	47.3	30.2	35.0	16.9	22.8	57.4
Ethiopia	42.3	43.0	51.0	45.0	36.0	34.1	31.8	33.6	29.7	38.9	30.3	30.9	49.3	67.6	66.3
Lesotho	NA	NA	NA	NA	NA	NA	NA	NA	NA	310.5	226.6	78.3	59.5	0	50.0
Malagasy Rep.	53.5	54.2	55.8	47.8	50.6	48.3	49.9	39.2	37.5	29.8	27.3	22.3	60.7	73.1	79.1
Malawi	NA	NA	NA	NA	NA	NA	NA	NA	NA	92.5	100.0	102.0	105.0	110.2	86.1
Mali	46.3	9.3	7.6	16.1	5.2	8.0	4.3	9.1	30.7	37.5	34.7	36.1	41.4	32.2	40.9
Mauritius	3.4	0	6.2	15.8	28.7	1.7	1.5	3.1	158.0	235.0	164.0	112.5	144.4	91.4	115.8
Mauritania	11.1	2.6	4.6	49.7	288.5	204.7	277.4	242.5	257.6	262.0	271.4	280.0	193.8	158.4	146.1
Niger	117.1	117.6	50.6	107.7	63.0	60.7	84.4	64.5	76.9	54.8	54.0	100.0	78.0	NA	NA
Rwanda	76.2	78.4	61.2	63.4	53.5	43.0	47.6	39.8	44.2	0.50	50.0	37.5	63.6	61.5	65.3
São Tomé and Principe	750.0	550.0	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	100.0	350.0	350.0
Somalia	129.0	134.8	109.2	116.2	75.7	100.0	91.4	84.9	39.1	36.0	40.0	28.5	32.4	20.4	22.9
Sudan	110.7	107.7	127.0	113.7	128.8	200.5	179.2	212.7	106.2	90.7	93.5	93.0	79.6	96.9	66.1
Swaziland	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	201.0	201.0	110.0	160.0	2150.0

TABLE 25--Continued

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
Tanzania	248.0	203.4	235.3	250.3	205.7	224.1	175.7	100.1	77.8	94.8	70.0	65.4	65.7	54.0	58.0
Togo	67.4	95.0	92.3	97.1	103.8	85.7	115.8	117.3	121.3	107.6	114.2	93.4	83.3	79.7	201.1
Uganda	287.3	324.0	184.6	230.3	161.1	134.8	77.6	68.9	84.7	81.9	105.9	82.4	142.1	231.4	144.7
Upper Volta	0.03	0.02	0.07	0.12	0.15	0.11	0.15	0.16	0.20	0.20	0.21	0.20	0.25	0.25	0.30
Zambia	281.3	259.9	332.8	360.0	NA	NA	NA	NA	257.9	401.2	395.5	147.6	158.1	263.2	173.4
CARIBBEAN MEMBERS															
Bahamas	0	0	0	7.5	NA	7.8	5.2	NA	16.1	23.7	14.4	30.0	12.7	19.3	34.0
Barbados	0	8.6	6.8	8.9	3.4	11.1	0	NA	46.8	57.6	32.7	28.3	35.2	32.7	22.9
Guyana	NA	NA	NA	NA	NA	48.5	46.7	23.7	62.2	69.3	58.1	85.4	124.4	81.2	106.4
Jamaica	10.0	13.2	14.1	14.1	13.8	14.9	15.3	11.5	48.2	43.3	39.5	45.6	55.6	59.6	55.8
Trinidad and Tobago	148.3	242.0	284.8	403.5	382.8	406.8	239.5	137.5	85.1	73.8	61.2	54.7	49.6	NA	NA
PACIFIC MEMBERS															
Fiji	55.5	62.5	254.5	180.0	192.3	113.3	28.0	11.5	110.5	110.0	104.5	77.7	67.6	59.4	139.3
Papua New Guinea	NA	NA	NA	NA	NA	NA	NA	NA	NA	0	NA	NA	880.0	573.9	789.4
Samoa	NA	NA	NA	NA	NA	NA	NA	NA	200.0	400.0	100.0	200.0	33.3	30.0	20.0

SOURCE: Data computed from Appendix A.

Terms of Trade = (Yx/Ym) (100) (Yx = Exports, Ym = Imports, base year is 1959 = 100).

Imports from other EEC countries rose from 12 percent to 16 percent during the period 1960-1970. The overall share of exports from the Central African Republic to the EEC during the period under review was due to the gradual liberalization of exports into the EEC.

Chad, on the other hand, experienced a decline of 69.57 percent in terms of trade for 1960, an improvement for one year and again a declining trend from 1962 until 1974. Since 1960, France's share in both exports and imports to and from Chad has decreased somewhat, while that of other EEC members increased slightly. This is indeed one factor responsible for the decline in the terms of trade experienced by Chad. As in the case of the Central African Republic, France is the major trading partner with Chad.

The improvement in Gambia's terms of trade between 1961 and 1974 and Guinea Bissau between 1960 and 1964 seems to be explained by the decline in the trend of the unit value of imports.[1] This decline was essentially due to substantial imports of heavy capital goods. Data in table 29 shows that Guinea and Mali both experienced a deterioration in their terms of trade during 1961-1969. Mali experiences shows an improvement from 1970 to 1974, while Guinea continued to show a decline until 1972.

Ethiopia, the Malagasy Republic and Mauritius had a decline in their terms of trade. Ethiopia and the Malagasy Republic experiences show a decline in terms of trade from 1960-1974, with the exception of a few years in which there were some improvements. Mauritius, on the other

[1]See data in Appendix A.

hand, had a declining trend from 1960-1967 and a period of improvement from 1968-1972. The terms of trade declined again in 1973 to 91.4 percent, but increased a year later to 115.8 percent.

In the Malagasy Republic, for example, the declining trend in its terms of trade was due to a poor performance in the unit export value which dropped an average of 57.7 percent from 1960 to 1974.[1] The import price index for the same period rose an average of 113.6 percent, reflecting relatively large imports of capital goods. This was also true for Ethiopia and to some extent, Mauritius. In Mauritius, imports and private capital inflow were affected by large counterbalancing transactions associated with externally financed capital goods.

Among the other landlocked states of Mauritania, Niger, Togo, and Upper Volta, the terms of trade index essentially reflect the process of development of their economies. On the basis of the data presented in table 25, the improvement of Mauritania's terms of trade during the period 1964-1974 and Togo between the period 1964-1970 was due to rising prices received for their exports. This improvement in the terms of trade during these periods off-set the early declines during the 1960-1964 period in both countries. Togo's exports underwent drastic changes with the discovery of phosphates in the 1960's; and it was not until 1964 that these changes began to be reflected in the terms of trade.

The estimated aggregate exports in Mauritania exceeded the estimated aggregate imports by 60 percent in 1969, because exports were recorded better than imports. The reason for better export record was that 88 percent of the export consisted of one item which was iron ore, and imports

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[1]See data in Appendix A.

consisted of capital goods which made record keeping a very complex process.

Niger, on the other hand, suffered from a decline in its unit value of exports from 1964 to 1972. During the period under review, Niger was one of the principal exporters of groundnuts (including groundnut oil) to the EEC, especially to France. This commodity received a guaranteed price higher than the world market price which made the decline in the terms of trade a serious economic problem for Niger. Between 1967 and 1968, the value of groundnut exports was affected by the elimination of the preferential prices formerly paid by France. In the same year, Niger also sustained losses on its groundnut exports to other EEC members. The value of imports rose about 5 percent from 1968 to 1969. These imports consisted of manufactured goods, mainly for industrial use. They represented 77 percent of the total imports in the same period of 1968-1969.

France provided Niger with most of her imports during the periods 1965-1966 and 1967-1969. In the 1967-1968 period, Niger's imports from France accounted for 48 percent of total imports, and other EEC countries accounted for about 12 percent.

Although industrial commodities in Upper Volta showed some improvement because of increasing prices, the overall terms of trade deteriorated between 1960 and 1974. The expansion in cotton and cotton seed exports from 1962 to 1968 contributed greatly to the trade position of Upper Volta. Cattle and livestock also contributed to the healthy trade position of Upper Volta, accounting for 55 percent of total exports in 1962.

In 1968, Upper Volta's export to the EEC was $4.0 million, representing a trade balance of 20 percent against Upper Volta. France is the major trade partner with Upper Volta; but other EEC members have also improved their trade with Upper Volta. Germany and the Netherlands, for example, accounted for 5 percent of Upper Volta's total trade in 1962 and 12 percent in 1968.

The rest of the land-locked countries of the African members of the EEC-ACP Association experienced some kind of deterioration in their terms of trade during the period 1960-1974.

Rwanda experienced the greatest deterioration in her terms of trade with the EEC, as data in Table 25 show. The total share of Rwanda's exports to the EEC declined from 37 percent in 1966 to 21 percent in 1970. This was a decline in export earnings from $35.7 million in 1966 to $6.0 million in 1970. This reflected a reduction in exports to Rwanda's principal trading partners--Belgium and Luxembourg. They both accounted for more than 90 percent of Rwanda's export to the EEC. However, exports to Belgium and Luxembourg rose by 3 percent in 1971 which resulted in an increase in the share of exports to the EEC by 24 percent that year.

The EEC continues to be the major supplier of Rwanda's manufactured and industrial products. Even though there was a decline of 36 percent in 1970 compared to 43 percent of imports in 1966 and 46 percent in 1967, imports continued to be greater than exports. Therefore, Rwanda continued to experience a deterioration in her terms of trade of 65.3 percent until 1974.

The improvement in Somalia's terms of trade with the EEC from 1960 to 1963 seems to be explained by the declining trend in the imports of capital goods. Prior to the Yaoundé and Arusha agreements, Italy was Somalia's main trading partner. However, Italy's share in Somalia's trade was in the down-turn between 1960 and 1963. Samolia's imports fell from 33 percent to 29 percent, and its exports from 56 percent to 49 percent during the period 1960-1963. This accounted for an improvement in terms of trade with the EEC. During the same period, imports from the United Kingdom declined from 13 percent to 6 percent. These factors taken together contributed to the improvement in the terms of trade during the period 1960-1963. However, during the period 1969-1974, Somalia's terms of trade showed a drastic decline. Imports of capital goods included machinery brought in under loan and aid agreements and by oil prospecting companies. This was the cause of the increase in imports. Imports from the EEC increased from \$25.0 million in 1969 to \$74.0 million in 1974, while exports to the EEC countries increased from \$9.0 million in 1969 to \$17.0 million in 1974.[1] There were other increases in imports of food, textiles, and motor cars. These factors caused the deterioration in the terms of trade with the EEC from 1969 to 1974.

Tanzania and Uganda show favorable terms of trade with the EEC throughout most of the 1960's. Tanzania's terms of trade show an improvement from 1960-1967, but reveal a continuous decline during the period of the Arusha agreement (1969-1974). Tanzania's principal export market among the EEC members is the United Kingdom. The relative share of export to the United Kingdom fell from 34 percent in 1961 to 27

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[1]See data in Appendix A.

percent in 1966. At the same time, Tanzania managed to import less from the EEC which enabled it to record favorable terms of trade. Between 1969 and 1974, Tanzania's share of total imports from the EEC increased from \$98.0 million in 1969 to \$231.0 million in 1974.[1] Although the value of exports to the EEC increased during this period, it was not enough to off-set the increase in imports, therefore, causing a deterioration in the terms of trade from 1969-1974.

Uganda had favorable terms of trade between 1960 and 1965, and a four year decline from 1966 to 1969, but had an improvement again between 1970 and 1974. Uganda's principal export market in the EEC is the sterling area countries. The share of exports going to the EEC countries increased from \$25.0 million in 1960 to \$32.9 million in 1965, while imports from the EEC into Uganda increased from \$8.7 million in 1960 to \$24.4 million in 1965.[2] This shows improved terms of trade for Uganda during the same period; but the share of exports going into the EEC from Uganda compared to the imports from the EEC into Uganda shows a decline from 1967 to 1969.

Between 1970 and 1974, exports to the EEC from Uganda improved from \$71.0 million in 1970 to \$110.0 million in 1974. This improvement was enough to balance the deficit suffered from 1966 to 1969. In terms of trade, the improvement was due to an increase in prices for such commodities as tea, coffee and cotton.

Zambia and the Sudan both showed improved terms of trade with the EEC. In case of Zambia, data for imports and exports for the 1960-1964

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[1] See data in Appendix A.

[2] See data in Appendix A.

period are documented for the old federation of Rhodesia (North and South) and Nyasaland. Therefore, extreme caution should be exercised in the interpretation of the data. From 1970 to 1974, Zambia continued to show favorable terms of trade with the EEC. This was because exports to the EEC have remained fairly stable, accounting for 33 percent of Zambia's total exports. Imports from the EEC showed a steady increase, but not enough to outweigh the increases in exports. This caused Zambia's terms of trade with the EEC to improve during the period 1970 to 1974.

The Sudan's terms of trade with the EEC were very encouraging from 1960 to 1968, but started declining from 1969 to 1974. The terms of trade declined from 90.7 percent in 1969 to 66.1 percent in 1974. This may be attributed to large imports of capital goods for industrial development.

The overall terms of trade of the land-locked countries of the Caribbean and Pacific showed some improvement from 1960 to 1974, with the exception of Jamaica and the Bahamas. In the 1960's, Jamaica began exporting bauxite and alumina which made a big difference in her terms of trade with the EEC. By 1969, 8 million tons of bauxite and alumina were produced and the majority was exported. Such rapid development not only gave great dynamic importance to the export market, but to a certain degree altered the composition of the export sector. Before these developments, 90 percent of the export sector consisted of agricultural products. It also resulted in some changes in external markets since Jamaica depended heavily on the EEC countries for its external trade. With the expansion of bauxite and alumina production, Jamaica was able to lessen its dependence on the EEC and increase export with non-EEC members like the U.S. and Canada. This coupled with the fast growing import sector caused the deterioration in the terms of trade with the EEC from 1960 to 1974. Imports from the EEC into Jamaica increased from $10.0 million in 1960 to $195.0 million in 1974.[1] Overall, imports into Jamaica expanded more slowly than those of other sectors during the period under review.

The Bahamas also showed a deterioration in its terms of trade with the EEC from 1963 to 1974. Even though the Bahamas had been importing from the EEC since 1960, there were no reported figures for exports out of the Bahamas to the EEC. The Bahama's average export to the EEC between 1963-1968 were $6.0 million, while the imports were $45.8 million during the same period. Exports increased from $6.0 million in the year ending 1968 to $106 million the year ending 1974. This was not enough to improve the terms of trade between the Bahamas and the EEC because imports increased from $45.8 million in the 1963-1968 period to a record high of $497.0 million in 1974. This deterioration happened even though the Bahamas and other Caribbean countries received preferential treatment for its exports into the EEC.

Trinidad and Tobago are the only Caribbean countries whose exports to the EEC countries are of any significance, although they have fluctuated quite considerably since 1968. Exports from Trinidad and Tobago to the EEC declined from $69.0 million in 1968 to $65.0 million in 1972.[2] Imports from the EEC to Trinidad and Tobago were very significant during the period 1968-1972. About a quarter of the countries'

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[1]See data in Appendix A. [2]See data in Appendix A.

total imports was from the EEC. A deterioration in the terms of trade with EEC occurred from 1968-1972.

Exports and imports from the EEC countries accounted for an increasingly larger share of Barbados' trade from 1960 to 1974. Data in table 29 indicate that during this period, Barbados experienced a deterioration in its terms of trade, even though Barbados enjoyed a preferential treatment for its exports to the United Kingdom and the other EEC members. Though Barbados' export to the EEC increased from $0.4 million in 1961 to a high of $19.0 million in 1973, imports increased at a faster rate. Imports grew from a low of $4.6 million in 1961 to a high of $61.0 million in 1974.[1] This factor was one of the main reasons for the deterioration of Barbado's terms of trade.

Guyana's terms of trade with the EEC seem to have deteriorated during the period under review, with the exception of 1972 and 1974, when the terms of trade revealed some improvements. The distribution of Guyana's export to the EEC showed a similar trend to that of Barbados. The United Kingdom accounted for 41 percent of Guyana's total exports with 59 percent distributed amont the other EEC members. Export to the EEC expanded from $5.0 million in 1965 to $82.0 million in 1974. Besides sugar, bauxite was also a contributing factor in the increase of the export to the EEC. With the international trade agreement between the EEC and the Caribbean countries in effect from 1964 to 1974, this gave Guyana the possibility to expand exports to EEC countries other than the United Kingdom. Although this increase was not of great significance, it did at least constitute a breakthrough into new markets.

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[1]See data in Appendix A.

During the period under review, there was a growing importance in imports from the EEC. The most marked increase, in both absolute and relative terms, has been in Guyana's imports where the expansion of bauxite was financed by EEC investments. Capital investments increased from $10.3 million in 1965 to $77.0 million in 1974, causing a deterioration in Guyana's terms of trade with the EEC.

Finally, in the Fiji islands, there was a deterioration in terms of trade in 1960, 1961, 1966, 1967, 1971, 1972 and 1973 because of rising import costs. The deterioration of the index to 77.7 percent in 1971 (1959 = 100) resulted from combined effects of a declining unit export. The declining proportion of sugar in total exports was partly to blame because of the low unit value, and on the import side, the increased import of foodstuffs was a major factor. In other years, the improvement in the terms of trade with the EEC essentially reflected a favorable export price performance. However, available data on the land-locked countries suggest that the majority of these countries experienced a deterioration in their terms of trade when trading with the EEC during the period under review.

It is important to emphasize that not all of the countries experienced a decline in terms of trade during this period. Available statistics must be used with extreme caution, for the simple reason that these countries are land-locked and island nations.

Non-Land-locked Countries

Among the fourteen non-land-locked countries shown in Table 26, only the Congo, Dahomey, Kenya, Sierra Leone and Surinam experienced some constant deterioration in their terms of trade, while the others were

TABLE 26

TERMS OF TRADE WITH THE EEC OF SELECTED NON-LANDLOCKED COUNTRIES OF THE EEC-ACP ASSOCIATION

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
Angola	135.3	162.0	131.3	142.8	198.9	144.2	110.1	50.0	50.0	79.0	90.5	50.3	60.1	54.6	81.8
Cameroon	144.9	132.1	127.5	133.1	106.4	92.8	88.9	64.0	96.4	114.9	94.3	78.6	84.9	114.4	121.4
Congo	26.2	21.4	42.1	67.1	60.0	65.2	49.4	47.7	48.4	72.7	42.2	36.6	40.0	80.0	127.7
Dahomey	70.8	69.7	46.6	46.5	55.2	46.6	31.1	28.1	38.2	48.5	48.5	51.2	45.7	54.4	50.0
Gabon	168.8	163.8	158.8	143.8	158.5	142.5	130.1	135.1	129.4	124.6	116.4	166.6	143.7	--	--
Ghana	123.0	118.4	112.9	94.1	120.4	92.2	79.3	92.7	120.6	118.3	118.3	71.7	134.4	133.3	86.2
Ivory Coast	83.2	98.8	110.9	127.4	102.7	94.6	103.3	111.1	125.7	133.0	113.6	105.7	118.7	119.3	134.0
Kenya	65.2	75.7	79.2	76.4	84.7	78.2	67.9	42.0	46.7	47.6	41.7	30.7	48.3	51.9	43.8
Liberia	192.3	118.5	38.7	52.7	89.5	310.2	277.6	292.2	305.5	410.5	226.6	78.3	59.5	329.4	79.2
Nigeria	117.9	130.8	145.4	155.0	130.7	141.6	147.8	166.8	124.6	137.6	132.4	128.1	147.8	160.0	274.0
Senegal	71.1	86.1	95.1	81.7	85.0	102.7	116.3	82.4	112.9	75.3	79.8	57.3	72.5	53.6	86.8
Sierra Leone	105.4	88.5	92.3	85.0	72.9	76.9	73.1	72.8	195.4	164.8	148.2	136.3	159.6	144.0	129.0
Surinam	22.2	26.3	25.2	24.4	40.2	21.1	28.2	122.8	69.2	134.2	135.8	159.5	121.7	103.3	128.5
Zaire	313.1	337.3	273.5	254.1	225.8	221.2	288.8	290.8	249.2	204.8	165.6	122.6	131.5	188.5	185.6

SOURCE: Computed from Appendix B.

Terms of Trade = (Yx/Ym) (100) (Yx = Exports, Ym = Imports, base year is 1959 = 100).

characterized by a mixed record improvements and some deterioration.

In the case of the Congo and Dahomey, the deterioration was mainly due to the rise in import costs. The unit value of exports declined from 1960 to 1973 for the Congo, but recovered strongly in 1974, reaching an index of 127.7 percent (1959 = 100). The unit value of exports also declined for Dahomey throughout the period under review.

Most of the Congo's trade with the EEC went to the Netherlands, the United Kingdom, and Germany. Each of these countries accounted for 20 to 25 percent of the registered exports. This was not enough to offset the increase in imports from the EEC, and caused a deterioration in the terms of trade from 1960 to 1973. The deficit in terms of trade with the EEC converted to a steadily growing surplus in 1974 because of the increased export of industrial diamonds and timber to the EEC market.

In Dahomey, the terms of trade declined from 70.8 percent in 1960 to 50.0 percent in 1974. The EEC countries benefited mostly from Dahomey's trade because their share in Dahomey's exports increased from 3 percent to 17 percent and imports from the EEC grew from 7 percent to 24 percent in 1961 to 1968. Exports grew from $17.0 million in 1969 to $41.0 million in 1974, but imports grew faster from $35.0 million in 1969 to $82.0 million in 1974. For the most part, this growth reflects a larger export of primary commodities to the EEC and a liberalization of Dahomean imports from the EEC. Therefore, this was the main factor for the decline in the terms of trade.

Kenya and Sierra Leone are the other non-landlocked countries that experienced a deterioration in their terms of trade with the EEC. Kenya suffered more from the declining unit value of their export to the

EEC than did Sierra Leone, and this decline lasted throughout the period under review.

Kenya's principal export markets in the EEC are the United Kingdom and Germany. The United Kingdom accounted for 22 percent, and Germany accounted for 13 percent of Kenya's total exports. The export share of all EEC countries from Kenya has remained fairly stable. Even though the quantity exported to the EEC has either declined or remained steady, the unit value has been increasing since 1960 from $29.1 million to $182.0 million in 1974. However, Kenya's unit value of imports from the EEC expanded from $44.6 million in 1960 to $415.0 million in 1974. The increase in imports was for manufactured goods, machinery and transportation equipment.

Sierra Leone's terms of trade recovered strongly in the 1970's after a decline in the 1960's. The value of exports which had declined during the 1961-1968 period from $12.4 million to $14.5 million, recovered strongly from 1968 to 1974, and reached an index of 129.0 percent in 1974 (1959 = 100).[1] The deterioration in the terms of trade in the 1960's was caused by an increase in the unit import value of capital goods which were needed for the process of economic development.

The improvement in the terms of trade of the other non-landlocked countries can be explained by the declining trend in the unit value of imports, and the increased trend in the unit value of export.[2]

The improvement in the terms of trade for the Ivory Coast was caused by the expansion of the export market, especially the increase in

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[1]See data in Table 26.

[2]See data in Appendix B.

demand for timber, in which the unit value was traditionally low when compared to coffee, cocoa and bananas. The developments in Gabon's terms of trade with the EEC was steady throughout the period. Unit values of imports had been increasing steadily from $21.8 million in 1960 to $112.0 million in 1972, while exports were also increasing to a high of $161.0 million in 1972.

The Cameroon enjoyed a steady improvement in her terms of trade from 1960 to 1964, but declined for a four year period from 1965 to 1968 and again from 1970 to 1972, the deterioration in 1965-1968 and 1970-1972 was caused mostly by rising import costs. The sharp deterioration to an index of 78.6 in 1971 (1959 = 100) was balanced by a recovery in 1973 and 1974 with a total index of 235.8 in both years.

Over 70 percent of Cameroon's trade was directed toward the EEC during this period, with France being the principal market. France accounts for 37 percent of total exports and 53 percent of total imports. However, France's share of Cameroon's total exports fell quite sharply after the Yaoundé Convention came into effect in 1964, even though its share of imports remained fairly stable. Simultaneously, trade with other EEC countries increased. Exports to the EEC countries were comprised mainly of cocoa, coffee, timber and rubber. The unit value of these products increased from $91.8 million in 1965 to $137.0 million in 1968, but imports increased even faster, causing a deterioration to an index of 96.4 percent in 1968 (1959 = 100).

The terms of trade index for Zaire reflected essentially the developments in the unit value index for exports in 1960 to 1974. The unit value of exports increased because of favorable prices for copper.

Since 1966, the unit value of exports has exceeded the 1960 level. After increasing to $44.8 million in 1960, it declined slightly to $383.0 million in 1967.[1] With lower copper prices, receipts from mineral exports declined by about 3 percent. The increase in copper prices in 1968 caused export receipts to rise by 25 percent, and this pushed the unit value of exports up to a record high of $506.0 million. The continual rise in copper prices and the expansion in production led to a further increase in the unit value of exports to the EEC throughout the period under review.

The other factor responsible for the improved terms of trade was the continuous decline in the unit value of imports. The value of imports, including those financed by foreign aid and by private capital, fell substantially during the period 1960 to 1974. This was a result of the stabilization program implemented by the Zairian government. For example, the intensification of exchange restrictions in 1967, the policy of wages, and the policy of fiscal and monetary restraint adopted by the government enabled Zaire to improve her terms of trade during 1960-1974.

Ghana and Liberia showed some improvement and some deterioration in their terms of trade with the EEC. The improvement in Ghana's terms of trade from 1960 to 1962 seem to be explained by the downward trend in the unit value of imports when compared with the export values. Imports declined from $92.7 millions in 1960 to $79.8 million in 1962. The deterioration in 1965 to 1967 was mainly caused by the decline in cocoa prices, which reduced the unit value of exports from $88.4 million in

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[1] See data in Appendix B.

1965 to $59.7 million in 1967.[1] In Liberia, the drop in the terms of trade from 1962 to 1964 reflected the movement in the unit value index of export. Liberia's index improved sharply in 1968 by 305.5 percent (1959 = 100), which resulted from the combined effects of an increasing unit of export value and a declining unit of import values. The rising proportion of iron ore in total exports is partly responsible for this improvement.

Senegal is a producer and exporter of groundnuts to the EEC countries. It suffered from a declining unit value of exports from 1960 to 1964, but recovered in 1965 and 1966, and again in 1969 to 1974. During the period under review, Senegal received a guaranteed price in the French market, but this system of over-pricing was gradually eliminated in 1964. This factor helps to explain the sharp drop in the unit value of exports because groundnuts was one of Senegal's major export items. Another factor responsible for the deterioration in the terms of trade was the large import of capital goods during the period of 1969-1974.

Finally, Nigeria's terms of trade improved tremendously during the period under review. The unit value of exports to the EEC grew from $139.4 million in 1960 to $4135.0 million in 1974, while the unit value of imports grew from $118.2 million in 1960 to $1509.0 million in 1974.

The response to the rapidly growing demands for Nigeria's oil was undoubtedly the factor responsible for the growth in unit value of exports. The demand for oil and the increased export to the EEC grew

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[1] See data in Appendix B.

rapidly because of the growth of income and the expansion of the industrial sector among the EEC members. In terms of importance, there is no commodity produced in the ACP countries which can rival oil, particularly in the medium and short-runs. Accordingly, Nigeria's terms of trade have improved steadily since 1960 because of the increased demand for oil.

Conclusions

The analysis contained in this chapter was intended to show how the terms of trade can constitute a useful measurement for offering an assessment of the probable economic and trade effects of the EEC-ACP Association. The analysis shows that there was a broad tendency of deterioration in the terms of trade for the majority of the land-locked and island nations. In the case of the non-land-locked nations, the terms of trade tended to fluctuate during the period 1960-1974.

Another conclusion that can be drawn from this analysis is that the secular trends in the terms of trade among the land-locked nations conform strictly to the Prebisch-Singer-Myrdal (PSM) thesis. Therefore, the secular movement in the reverse direction for some land-locked nations was a direct result of a trade association because of their weak economic structure against the stronger economies of the developed nations of the EEC. This analysis seems to clearly support the PSM thesis.

In the case of some non-land-locked countries, there was a clear improvement in the terms of trade which can be attributed to the trade associations. Improvements seem to reflect the economic position of these countries such as Zaire, a major exporter of copper and Nigeria, a major exporter of crude oil. These non-land-locked countries appear to possess the capacity to finance the rising costs of their imports. Therefore, it appears that with the landlocked countries of the EEC-ACP Association have not yet shown any improvements in their terms of trade as a direct result of trade association with the EEC, the non-landlocked countries have experienced some favorable and improved terms of trade because they were able to finance the rising costs of their imports.

CHAPTER VIII

AN ASSESSMENT OF THE EEC-ACP AGREEMENTS

The trade association between the EEC and the ACP countries, (i.e., the Lomé Convention) has been proclaimed as the redefining of trade relations between the developed and developing countries. In fact, this new agreement has been hailed as the Marshall Plan for the developing countries of the ACP.

Supporters argue that the new agreement contains similar characteristics of the Marshall Plan of the 1940's,[1] and that the agreement is aimed at helping the developing countries of the ACP to acquire technical knowledge and to increase their levels of productivity and living standards. They hope that the association would expand trade between the EEC and the ACP countries in such a way so that it becomes an engine of growth.

This chapter will be concerned with an assessment of the information provided in Chapters VI and VII. The insights gained should help provide a basis for a probabilistic comment on what may happen during the period in which the Lomé Agreement is in effect.

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[1]The Marshall Plan was the U.S. Government's Post-World War II foreign aid to Europe.

Assessment of the EEC and ACP Agreements

Commodity Analysis

The changes in the trade patterns shown in Chapter VI under "Gains from Trade: Commodity Analysis" were not generally consistent with those predicted by traditional economists or by those who believe in trade as an "engine for growth." Concerning the seven major exported commodities from the ACP countries, the pattern that actually emerged was mixed.

In the case of coffee, for example, the tariff advantage enjoyed by the ACP countries during Yaoundé II was partly responsible for the increase in the shares of ACP coffee exports to the EEC markets. This is also true for cocoa. During the periods 1961-1964 and 1965-1968, the share of ACP cocoa exported to the EEC markets increased from 5 percent to 8 percent. But the portion of ACP tea exports directed toward the EEC markets fell from 2.14 percent in the 1960-1963 period to 1.95 percent in the 1964-1967 period. This suggests that even though the ACP countries enjoyed a tariff advantage, not all of their exports increased during these periods. Thus, for the commodities examined in Chapter VI, the changes in the trade patterns do not support the view that agreements with the EEC have generally acted as an engine for growth for the ACP countries.

The export trend of the commodities examined in Chapter VI shows an interesting pattern that is consistent with the argument made in this study. That is, the EEC and ACP trade agreements shifted the burden of providing preferential treatment from France to the rest of the EEC members. The analysis shows that the share of cocoa, bananas, and coffee exported to France by the ACP countries declined after 1964, whereas, it rose in the other EEC markets.

It is interesting to note that for some commodities such as coffee and cocoa, the ACP countries have not considered tariff preferences to be sufficiently important gains. In the 1960's, ACP producers began joining international producers' organizations such as the International Coffee Agreement and the Cocoa Alliance. The decision by the ACP countries to join these organizations be interpreted to mean that they believed in the importance of joint action to influence world commodity prices either as a substitute or a complement to the preferential treatment they would enjoy in the EEC markets.

The Commodity Analysis revealed that for the majority of the commodities analyzed, the long-run impact of association seems less clear, and that for most ACP countries, the association with the EEC resulted in a re-direction of ACP exports from third markets to the EEC markets. In this case, it resulted in gains for the ACP countries. On the other hand, if the total ACP exports remained unchanged or declined as a result of the association, this would mean no gain or loss of export revenues for these countries.

The introduction of a new Common External Tariff (CET) for a number of ACP products reduced the preferences that these products enjoyed. Moreover, the association froze the degrees of preference in the non-French markets, and this affected the export market of some ACP countries. This suggests that the EEC sought to regulate preferences in a way so that it would maintain, but not improve the export markets of the ACP countries. The association substituted capital flows in the place of price supports that most of the ACP countries received prior to the association. This policy affected the export earnings for most of the ACP countries. Both policies suggest moves that would not improve the export performance of the ACP countries.

The Commodity Analysis has also revealed the growing problem of competition faced by the ACP countries in the EEC markets. They must compete with other developing countries and with the domestic producers of the developed countries. The decline of sugar exports to the EEC from a share of 15 percent in the 1968-1971 period to 10 percent in the 1972-1974 period can be explained by the competition from other developed and developing countries. The sugar exporting countries of the ACP cannot afford to compete with developed countries by using large-scale mechanization because of inadequate lack of capital investments in heavy machinery.

Thus, the emerging export trend of the ACP countries, both before and during the trade association with the EEC, seems to support the conclusion that the ACP countries have essentially remained suppliers of raw materials. Some trade diversion has taken place for such commodities as cocoa and groundnuts where the tariff preferences granted to the developing countries of the EEC-ACP Association had a significant impact. The Commodity Analysis helped to verify this conclusion about the period of association between the EEC and the ACP countries. The Commodity Analysis has also indicated that for many of the commodities, the tariff preferences did not seem to have prevented competition from other developing countries, especially from Latin America. In addition, the preferential treatment of the ACP countries did not stop competition from developed countries such as Australia which exports commodities such as copper and iron ore.

Commodity-Terms-of-Trade

The commidity-terms of trade analysis which was undertaken in Chapter VII does not strictly conform to the Prebisch-Singer-Myrdal thesis because some ups and downs in the terms-of-trade for the majority of the non-landlocked ACP countries have been observed. In the case of the landlocked countries, there was a general secular trend of deterioration in their terms-of-trade which lowered their levels of investment and economic development.

The influence of trade association on the commodity-terms-of-trade became evident in the changes which took place in the changes which took place in the geographical pattern of trade. In Jamaica, Trinidad and Tobago, and in some of the African states, the EEC market replaced the U.S. and Japan as the major outlet for exports. In Barbados, for example, the EEC retained its leading place because of the importance of sugar.

During the period of association, the fluctuation or secular trend in the terms-of-trade of many ACP countries had some effect on their economies in two ways. Firstly, there may have been a direct effect on the producers' income in the export sector. Secondly, there may have been indirect influences such as the multiplier and accelerator effects on the entire economy. The multiplier and accelerator effects may have produced some changes in the GNP of many ACP countries.

Fluctuations or the secular trends in the terms-of-trade tend to induce similar fluctuations in income directly. As was pointed out in

Chapter IV, fluctuations in income also affected private consumption, private investment, and public expenditures--all of which contributed to the slow economic growth experienced by the majority of the ACP countries.

It was also made clear that the fluctuations in the ACP countries' exports or external receipts gave rise to fluctuations in imports. However, in some non-landlocked countries like Nigeria, the import ratios exhibited a discernible upward trend because of increased production and the exportation of crude oil. Fluctuations in imports as severe as those which occurred in some landlocked countries are likely to be associated with secular trends in the terms-of-trade experienced by these economies and because of the sizeable variations in real consumption or investment caused by secular trends.

Prebisch's proposal to the UNCTAD[1] visualized compensation as one method to correct the deterioration in a country's terms-of-trade. He recommended that compensation should not be automatic, but should depend on the effect of the "deterioration in the country's terms of trade on its investment resources, rates of growth, and balance of payments."[2] The effects of compensatory financing[3] could also be achieved by direct price support which seems to be a close substitute for compensation of changes in the terms-of-trade. Under the price support system,

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[1]Prebisch, "Compensatory Financing to Counter the Effects of Deterioration in the Terms of Trade," UNCTAD, E/Conf. 46/3, February 12, 1964, Chapter III, Part A, pp. 97-104.

[2]Ibid.

[3]The New Compensatory Financing Scheme introduced in the new agreement (Lomé) will be assessed later in this chapter.

the various ACP countries could receive an offsetting payment. Price support for individual commodities through a series of commodity agreements would probably improve the ACP countries' terms-of-trade.

It has become apparent that with the expansion of the preferential area (the agreements between the EEC and the ACP), the export revenues of some ACP countries declined, especially those which were former French colonies. This was mainly because of the removal of price supports and the sharing of the French market with other ACP countries. The result was a deterioration in the terms-of-trade. Finally, if the series of commodity agreements were implemented and these included those commodities with the highest value in the export markets, this would cover roughly one-half of the total export receipts of those countries involved. This would indeed solve some of the problems of fluctuation and secular trends in the terms-of-trade of the ACP countries.

Assessment of the Lomé Convention

A major feature of the Lomé Convention is the free access of the EEC markets to almost all ACP products. It will be remembered that the Convention calls for all industrial goods and 96 percent of agricultural products originating from the ACP countries to have free entry into the Common Market. Another feature is that of non-reciprocity of trade obligations. Non-reciprocity of trade obligations postulates that the ACP countries do not need to extend any reverse preferences to the Common Market members. Finally, the principal feature of the Lomé Convention--the Export Revenue Stabilization Plan, calls for a guaranteed level of income for certain products for the developing countries of the ACP group in order to protect them from fluctuations in the world market.

Duty-Free Entry of Industrial Products

The free access to the EEC market gives the developing countries of the ACP an advantage over other developing countries of the world. At the same time, the "most favored nation" (MFN) treatment[1] granted to the EEC by the ACP countries tends to cause losses of revenue in the ACP economies. This loss of revenue can come about because the ACP countries cannot sell their products to other nations who might be willing to pay higher prices than the EEC. During the period from 1975 to mid 1977, trade between the EEC and ACP countries has not grown as was originally expected. The developed countries outside the Lomé Convention still account for a large percentage of raw material exported into the EEC.

> These countries accounted for 58.8 percent of the raw materials exported into the EEC in 1975, while all developing countries accounted for 31.5 percent. The ACP countries accounted for 10.2 percent of the total 31.5 percent from the LDC.[2]

All industrial and manufactured products from the ACP countries were granted duty-free entry into the EEC market. The objective is to encourage diversification of the economies of the ACP countries, and to give them an edge over other LDC's. As data in Table 31 show, very little of this has been achieved since 1970. The trend towards increasing exports of manufactured and industrial products to the EEC has not improved. The data in Table 27 also show that the ACP countries accounted for only 0.6 percent of total EEC imports of manufactured products in

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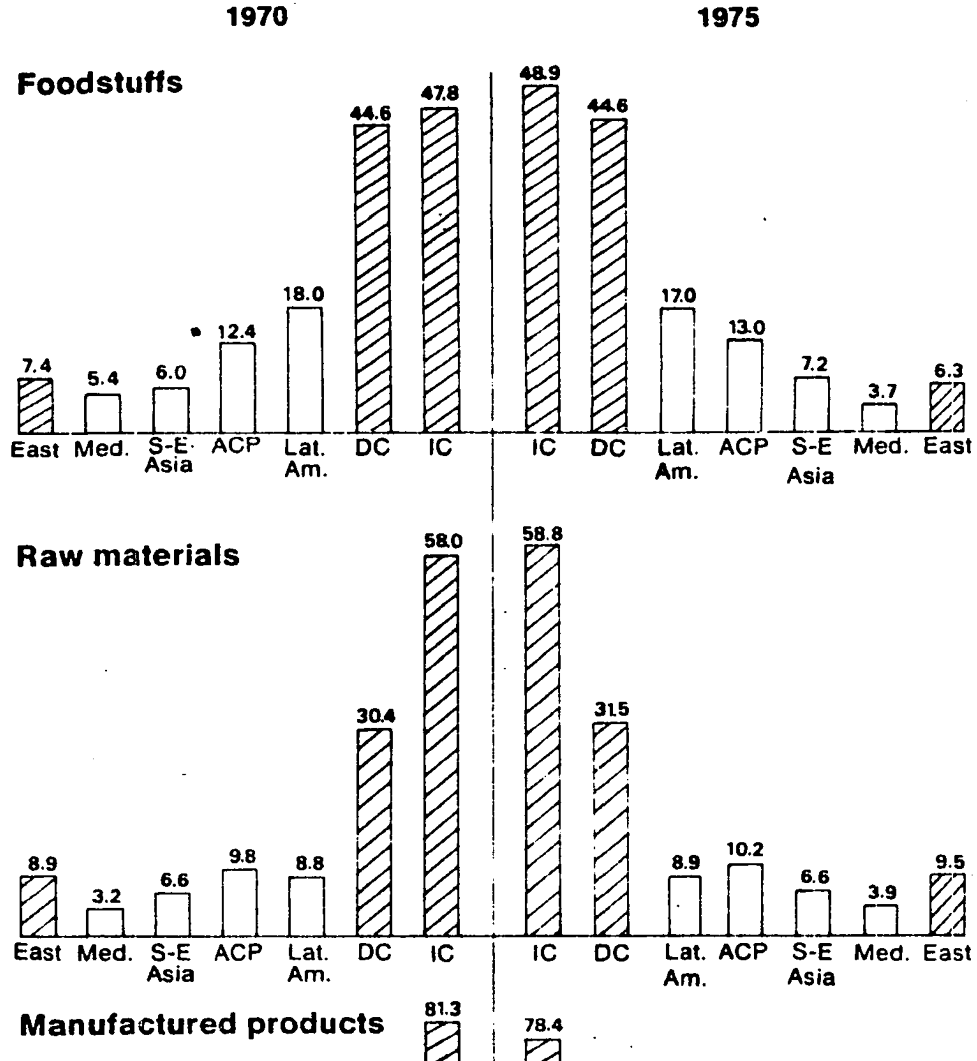
[1]Most favored nation treatment means that the ACP countries cannot grant any particular favor to other nations in respect to trade which shall not immediately become common to the other members of the EEC who shall enjoy the same favor freely.

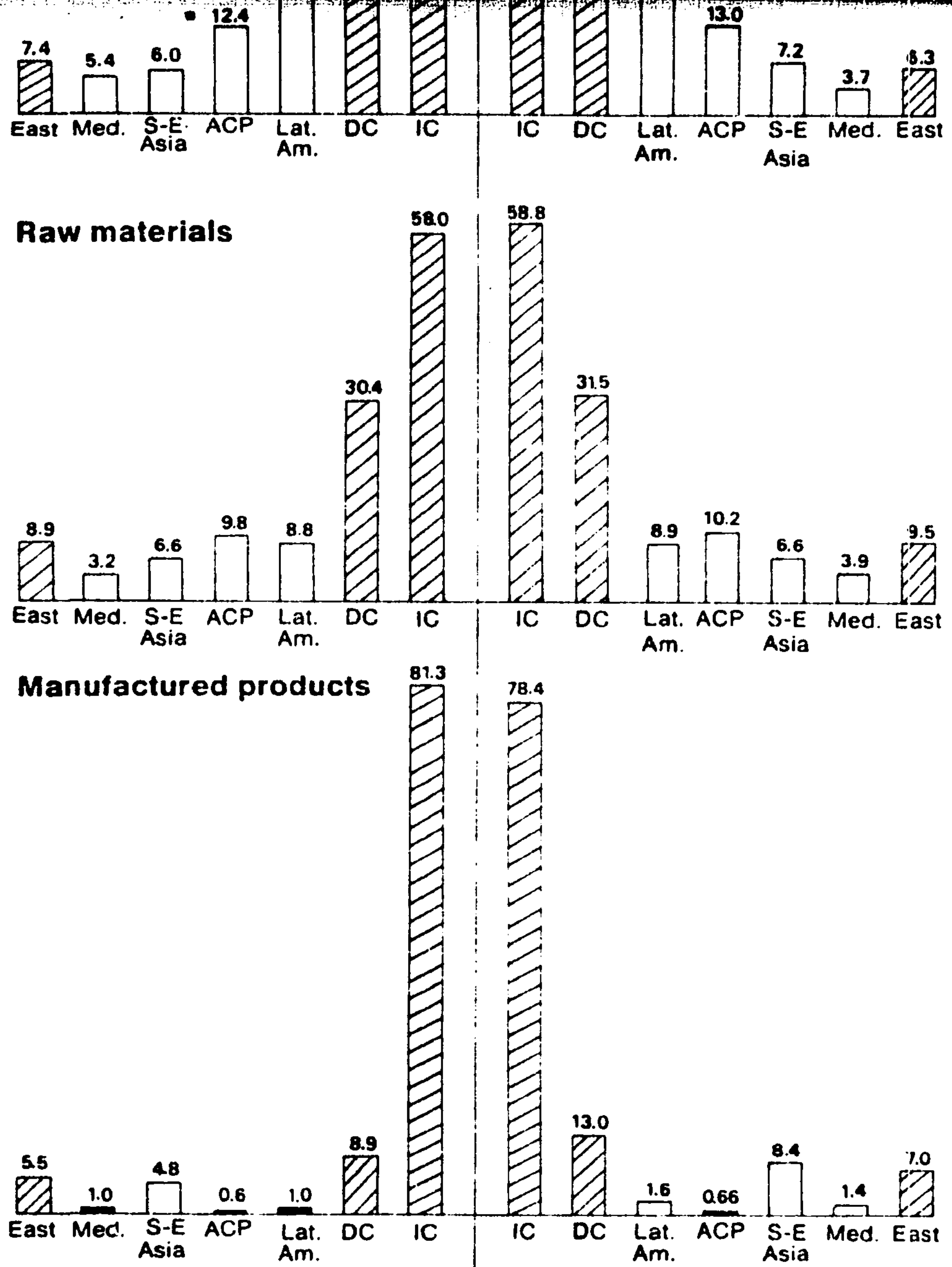
[2]See "The EEC-Third World Trade Picture," The Courier: The EEC-ACP, (Sept.-Oct. 1977), no. 45, p. 34.

TABLE 27

Distribution of extra-EEC imports by groups of countries

In % of each group of products





SOURCE: The Courier: The EEC-ACP, Sept.-Oct. 1977, no. 45, p. 37.

1970, and in 1975, the figure was 0.66 percent, while, the Southeast Asian countries accounted for 4.8 percent in 1970 and 8.4 percent in 1975.

Data in Table 28, on the other hand, show that the EEC exports of manufactured goods to the ACP countries rose from 5.4 percent in 1970 to 6.8 percent in 1975. This clearly shows that so far, free access into the EEC market for all industrial products from the ACP countries has not had a dramatic change in the export of industrial and manufactured products from the ACP to the EEC.

The manufacturing of machinery and transportation equipment is virtually non-existent in most of the ACP countries. Even in the area of labor-intensive manufactured consumer goods, the ACP countries do not appear to be able to compete with the established producers in Southeast Asia and Latin America, as data in Table 27 show.

In the long run, the ACP countries might become significant exporters of industrial products based on local raw materials. This is a long-run possibility, but in the short-run, it is unlikely that the Lomé Convention will cause any substantial increases in the export of industrial products to the EEC market. Thus, it appears that gains from trade in industrial products may be two or three decades away.

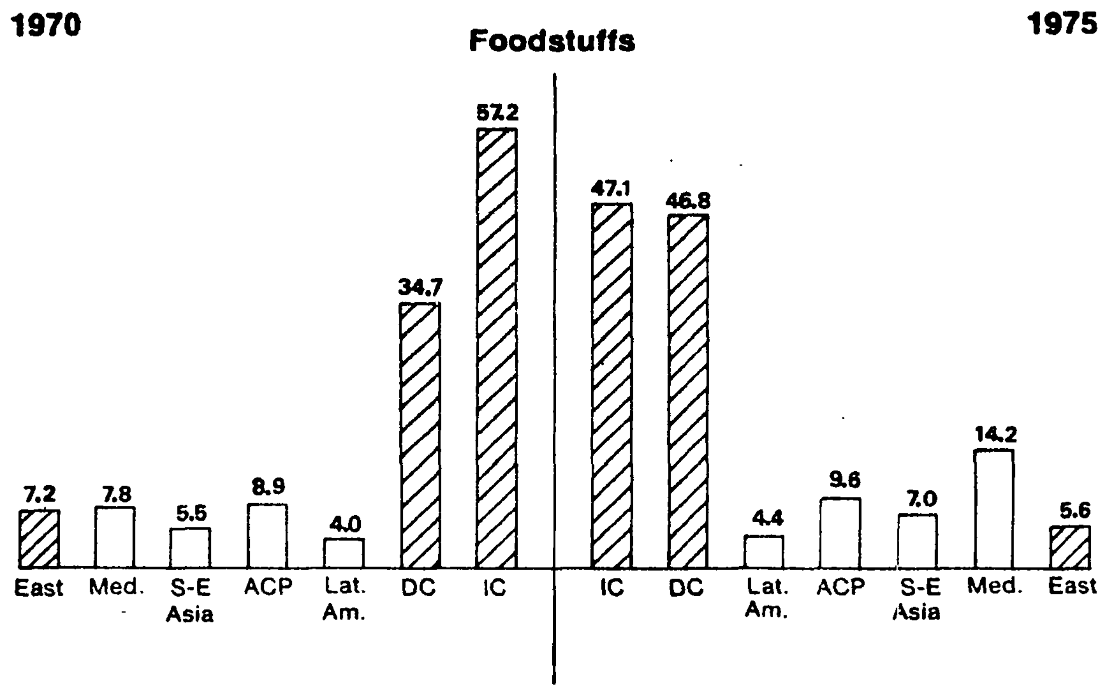
Duty-Free Entry of Agricultural Products

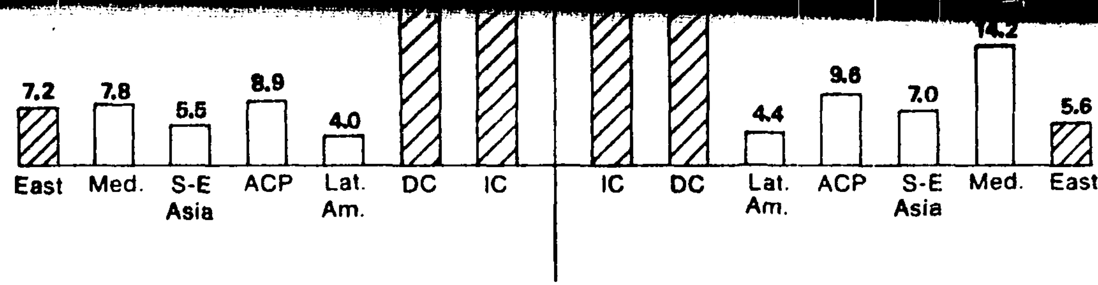
The Lomé Convention provided for the free-entry into the EEC of 96 percent of the agricultural products of the ACP countries. These products include coffee, cocoa, tea, bananas, cotton, etc. The benefits that would be derived from this provision is of extreme importance

TABLE 28

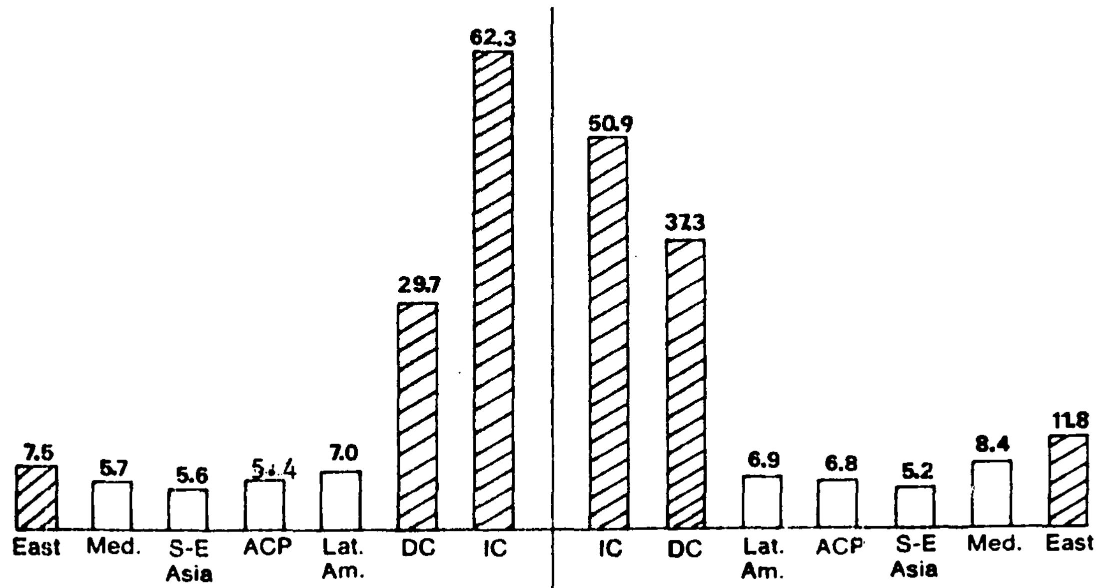
Distribution of extra-EEC exports by groups of countries

In % of each group of products





Manufactured products



SOURCE: The Courier: The EEC-ACP, Sept.-Oct. 1977, no. 45, p. 38.

because the ACP countries are major exporters of agricultural products.

The duty-free provision gave the ACP countries a more favorable position in relation to the rest of the developing countries. The argument has been put forward that the preferential advantage may increase the ACP's exports to the EEC by diverting EEC imports from non-associated countries. However, the fact of the matter is that exports of agricultural products to the EEC from Latin American countries have been increasing since 1970. Because the agricultural sectors of the ACP economies are not mechanized and because of the Special Protocol introduced in the trade agreements, it is doubtful that there can be an effective export expansion.

Few of the major products that offer the best prospects for export expansion fall into the categories covered by the Special Protocol. The Special Protocol for sugar is a typical example. It replaces both the Commonwealth Sugar Agreement and the agreement governing sugar exports to France by former French colonies. This protocol provides for a reciprocal guarantee of purchase and delivery of specified quantities[1] at a semi-indexation of prices. Therefore, any price offered for ACP sugar must be within the range of prices offered to producers in the European Community. The purpose was to protect the European sugar producers against outside competition.

The price that is established by the special sugar protocol in most cases is fixed and is usually above the world price for sugar. In order to maintain this price level, imports from outside the Community

[1]See Table 29. The Special Protocol for sugar covers a quantity of 1.4 million tons of raw sugar or 60 percent of total ACP sugar exports.

TABLE 29

SUGAR EXPORT FOR THE 1975-1976 SEASON
(In Metric Tons)

ACP Countries	Annual Quota Given by the Protocol	Total Amount Delivered[a]
Barbados	49,300	50,430
Fiji	163,600	135,000
Guyana	157,700	154,190
Mauritius	487,200	487,040
Jamaica	118,300	119,920
Kenya	5,000	--
Madagascar	10,000	10,030
Malawi	20,000	20,000
Uganda	5,000	2,960
Congo	10,000	--
Swaziland	116,400	114,300
Tanzania	10,000	10,120
Trinidad and Tobago	69,000	68,940
Total	1,221,500	1,173,000

SOURCE: Commission of The European Community, Background Note, No. 15/1977, Brussels, EEC, 1977.

[a]By the Protocol, an ACP country that does not deliver the agreed quantity beyond a 5% margin of tolerance has its quota reduced by the amount of the short-fall.

are restricted. Another method used by the Community to stabilize the sugar market, is that of buying any surplus sugar in excess of domestic consumption. This surplus sugar is stocked or sold again in the open market. This provision is very important to the established exporters of sugar like the Caribbean members; but others may have been frustrated by the import policies of the EEC.

Non-Reciprocity of Trade Obligations

The concept of reciprocity or reverse preference was one of the burning issues that affected former trade relations between the EEC and the developing countries. Former agreements (the Yaoundé and Arusha Conventions) established the principle of mutual free trade in broad terms regarding the exports to and from the EEC with duty-free privileges for a wider range of items. The Arusha Agreement was subject to duty-free ceilings whereas the Yaoundé Agreement enjoyed duty-free entry. The "ceilings were introduced because it was feared that duty-free entry of the products in question into the Community would disturb exports from the Associated states."[1]

Other major markets outside the EEC include Japan and the eastern European countries. Trade with these developed countries grew considerably during the last half of the 1970's. For example, Japan is an important trading partner for nearly all the Commonwealth African countries. The eastern European countries became important trading partners for a group of the Commonwealth countries and this was particularly

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[1]Commission of the European Communities, The Enlarged Community's Offer of Co-Operation to Twenty Commonwealth States, (104/x/72-E), Annex 2, Feb. 1972, p. 1.

noticeable after the Lomé Convention was signed.

Moreover, under the non-reciprocity of trade obligations, the developing countries of the EEC-ACP Association can receive general tariff preference from other developed nations. As a matter of fact, the United States has been demanding the non-reciprocity of trade in order to offer general tariff preferences to the developing countries of the EEC-ACP Association. Gains derived from the removal of reverse preferences in the Lomé Convention can be very sizeable.

STABEX--The Export Revenue Stabilization Plan

Short-term fluctuations in export revenues is one of the problems facing the developing countries of the EEC-ACP Association. These fluctuations may be caused by short-term variations in demand for primary products and by changes in the supply of these commodities. They may also be caused by natural factors such as poor climatic conditions.

The export market of the developing countries of the EEC-ACP Association depends on a narrow range of primary commodities and on a limited market. Therefore, any fluctuations in the earnings of any one of these commodities may substantially affect the revenue receipts of a given country.

In many of these countries, the ability to sustain a steady growth pattern depends on these export receipts. Any substantial changes in export proceeds may introduce uncertainties into their investment programs, and this is likely to affect their growth patterns.

For these reasons, the Lomé Convention established a system of export revenue stabilization scheme that would guarantee the developing countries a certain level of income for their commodities during a period of fluctuation.[1]

Setting the Stage

The situation calling for the establishment of a compensatory financing scheme was the unusual balance-of-payment problem among the developing countries of the EEC-ACP Association. As mentioned above, this was mainly caused by fluctuations in export earnings. The integrated commodity program launched by the UNCTAD secretariat in late 1974[2] reveals that prices and earnings of primary commodities have historically experienced a great deal of fluctuation. One basic reason for this fluctuation is that the demand for and supply of these primary products are less responsive to changes in prices. In addition, each primary product produced by the ACP countries has its own somewhat unique pattern of fluctuations. Fluctuations might be caused by economic or institutional factors. For instance Brazilian coffee is more preferable than African coffee in Germany. Also, the long-run supply cycles have some effect on the coffee and cocoa markets. These cycles are a direct result of long gestation periods of new planting seasons which may have been endangered by high prices for two or three years. These effects are not felt until six or seven years later and are responsible for a great variety of fluctuation patterns. According to some U.N. Studies, "this means a year-to-year variation in the prices of individual primary

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[1]See Chapter III for details on STABEX.

[2]UNCTAD, "An Integrated Program for Commodities," (TD/B/C. 1/166) December, 1974.

commodities averaged some 13 percent over the period 1900 to 1958."[1]

Data in Table 30 show that instability was particularly severe among the ACP countries during the period 1960 to 1973. This was primarily caused by the decline in demand for primary products among the EEC countries. Commodity prices have been the other factor responsible for the decline in export receipts from 1960 to 1973.

> Since the middle of 1974, commodity prices have declined by as much as 40 percent from the peak level reached in the first half of 1974, and indications are they will continue to fall until the world recovers from the recession.[2]

Even during the period of booming prices, some of the crucial commodities of the developing countries of the ACP declined in the quantity exported. "The U.N. export prices index for all primary commodities started to level off in the third quarter of 1974 and declined in the third quarter of 1974 and in the first quarter of 1975."[3]

Therefore, it was these developments that the ACP countries felt that renewed the call for a program to stabilize export earnings.

Supply and Demand Instability

Supply instability for primary commodities from the ACP countries depends on the elasticity of demand of the developed countries of the EEC. The more income elasticity departed from "unity" the more pronounced the effects on export receipts would be for the developing countries because the export value received by the developing countries would

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[1]United Nations, Instability in Export Markets of Underdeveloped Countries, (New York, 1952) and World Economic Survey, 1958, (New York, 1959).

[2]UNCTAD documents, TD/B/530, p. 5 and TD/B/503, Add. 1 (Part 1), p. 3.

[3]GATT, International Trade, 1974/75, pp. 17-23.

TABLE 30

TRADE AND SHORTFALLS IN EXPORT PROCEEDS
FOR SELECTED ACP COUNTRIES, 1960-1973

Country	(Value in Millions of U.S. Dollars)	Annual Growth Rate % in Export Volume		Export Purchasing Power	
		1960-1970	1970-1973	1960-1970	1973
Major Petroleum Exporting Countries:					
Nigeria	3067	7.8	12.3	7.6	24.6
Trinidad & Tobago	692	2.7	-1.9	3.4	0.5
Least Developed Countries:					
Chad	38	10.7	-15.3	6.1	1.7
Dahomey	59	3.6	-6.7	4.4	-0.7
Ethiopia	237	3.1	8.8	3.4	12.7
Malawi	96	7.7	10.8	7.1	5.5
Mali	36	8.7	-14.3	7.7	-8.7
Niger	56	7.3	6.1	7.3	14.3
Rwanda	31	16.4	-7.1	17.9	-10.1
Somalia	43	3.0	1.2	1.2	-0.6
Tanzania	295	2.3	-6.2	1.4	0.0
Uganda	325	4.4	-2.4	5.4	-0.9
Upper Volta	24	13.1	-17.4	14.2	-10.1
Others:					
Angola	778	8.8	3.4	11.0	4.7
Barbados	54	3.3	-1.1	3.2	-2.6
Cent. African Rep.	48	6.8	4.4	6.2	4.6
Cameroon	352	7.0	-0.3	7.3	4.0
Congo	125	3.9	12.0	3.6	12.3
Gambia	25	6.7	-3.3	6.0	1.9
Ghana	530	2.9	-7.6	2.2	-2.0
Guyana	140	3.1	-4.8	4.2	-8.4
Ivory Coast	857	8.25	8.4	10.6	10.2
Jamaica	392	6.0	2.7	5.6	-5.8
Kenya	351	5.4	5.8	4.9	6.1
Liberia	289	16.1	3.2	7.9	-0.4
Madagascar	203	6.4	-2.3	4.9	0.9
Mauritius	132	7.0	6.7	4.2	10.9
Mauritania	120	45.0	4.3	43.5	-0.8
Mozambique	304	7.2	-3.8	5.9	-0.5

TABLE 30--Continued

Country	(Value in Millions of U.S. Dollars)	Annual Growth Rate % in Export Volume 1960-1970	Export Volume 1970-1973	Export Purchasing Power 1960-1970	Export Purchasing Power 1973
Senegal	195	2.3	-2.4	2.5	1.9
Sierra Leone	132	-0.4	3.1	0.2	-1.8
Togo	61	11.4	-22.5	11.9	-12.9
Zaire	1,000	-0.2	-1.8	2.8	-3.1
Zambia	1,143	3.2	-7.8	8.6	-9.7

SOURCE: United Nations, UNCTAD, "Review of International Trade and Development," 1975, TD/B/53D/ADD 1/Rev. 1, New York, 1975.

change as a result of shifts in the demand for the products from the EEC market.

As the supply to the EEC market fluctuates, it affects the export receipts of the primary producing countries because of the small share they contribute to the total import market of the EEC. A shift in the EEC demand curve for primary products can cause a major fluctuation in export earnings of the developing countries. The ACP countries are faced with a net EEC demand curve that is based on the aggregate world demand and supply curves. Hence, any shift in the aggregate world demand would affect the position of the net EEC demand curve. The shift in the short-run demand curve for the world is usually caused by price change and cyclical changes in income, and these directly affect the export receipts of the ACP countries.

Another cause of export instability might be inappropriate monetary and fiscal policies which tend to generate instability in the net export supply curve, causing export earnings to decline.

The Impact of STABEX on the ACP Countries

The STABEX scheme has been in operation for a little over two and a half years. Because little data are available about the direct impact of STABEX on the economies of the ACP countries, extreme care would have to be exercised in determining the impact that the program has had on the ACP economies.

The first impact STABEX had on a member country was in 1976 when Sierra Leone was unable to draw from the funds of STABEX because the request did not meet the criterion that export earnings from the commodity in question be at least 7.5 percent below the reference level.[1] Sierra Leone's request was for iron ore which accounts for 12 percent of the total exports that was next to diamonds which accounted for 63 percent. This incident suggests that STABEX does not come to the aid of the ACP countries until there is a considerable decline in the export revenues of these countries.

Another weakness in the STABEX scheme is its method of calculation for short-falls in export earnings. This method of calculation completely underestimates the trend value of exports discussed in Chapter VI under Gains and Trade: Commodity Analysis. It will be remembered that despite the tariff advantage enjoyed by the developing countries of the ACP, certain commodities declined in export values. It is apparent under STABEX, due to the method of calculation the developing countries cannot automatically draw from the scheme during a period of decline in exports. For member countries such as Guinea and Zambia in which one commodity accounts for over 90 percent of total exports,[2] earnings, this will lead to a decline in revenue causing serious internal instability and damaging their developmental programs. Other approaches include one method of calculation implemented by the IMF, where short-falls are determined by comparing earnings in current terms.[3] Another method used by the IMF facility also which includes a five year average as a point

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[1] The STABEX scheme reference level is the average earnings from exports to the EEC for the four preceding years.

[2] See data in Table 16.

[3] The current terms are over a 12 month period to a 5 year average. The average includes the short-fall year, the two previous years, and estimates of the two succeeding years.

of reference.

It appears that the STABEX system should be more flexible. The IMF facility shows more flexibility in that initial estimates of the trends in earning can be altered so as to take into account only the overall cyclical development of the individual commodity of and country in question. In other cases, the IMF facility, for example, can consider the individual commodity without placing any measurement on the shortfall experience by the commodity in question.

The STABEX facility covers a wide range of products exported by the developing ACP countries, but failed to provide any provisions for small-scale processing. It is very clear that the EEC is interested in protecting the processing industry and that the EEC continues to use the ACP countries as suppliers of raw materials. Even though the STABEX system covers a variety of primary products, some member countries were denied compensatory payment in 1976.

Product coverage under the STABEX system is very important to the survival of the ACP countries. The system is severely constrained as to the number of products it can cover individually. Widening the coverage clause under STABEX would resolve some of the coverage problems for products.

Besides product coverage, the availability of resources in the STABEX system may have an impact on the economies of the ACP countries. For example, the availability of financial resources during the period a request is made for compensatory payments is considered. Another factor is the trade policy of the individual ACP countries which could affect their ability to increase export earnings and may have an impact on a request for compensatory payments.

International inflationary pressure can also affect the availability of resources in the STABEX system. Calculation of STABEX prices are averaged over a period of four years when the value of money is less or greater than it is at the time of calculation. If prices for primary commodities continue to decline and the costs of production continue to increase, farmers will stop producing because they cannot cover their costs. A decline in production means a restriction in supply and an increase in prices. If this happens, current prices will tend to be higher than those of the last four years. The EEC will then be required to pay an all around compensation.

Finally, the impact of the STABEX system on the economic development of the ACP countries is very limited. There are better alternatives. Data in Table 31 show that other systems such as the IMF system paid a total of $108 million to the landlocked and island countries of the ACP during the period 1975-1977, while the STABEX system paid only $79.5 million to a total of only 17 ACP countries, of which the landlocked and island countries received only $44.5 million. The IMF system was a savior for a number of countries whose requests were rejected by STABEX.

Financial, Technical and Industrial Cooperation[1]

One of the most important aspects of the Lomé Convention is the provision for financial and technical cooperation between the EEC and the ACP countries. The main objective of this provision is to correct the structural imbalances that might exist in the various economies of the

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[1]See Chapter IV and Appendix IX-A for the details of this provision.

TABLE 31

COMPENSATORY FINANCING FOR SELECTIVE ACP COUNTRIES IN 1976: THE STABEX AND IMF SCHEMES (In Millions of U.S. Dollars)

	Product Covered	STABEX	IMF
ACP Countries Drawing on Both STABEX and IMF:			
Cameroon	Wood in the Rough Stage	4.0	20.1
Cent. African Rep.	Coffee	.4	5.9
Ivory Coast	Wood in the Rough Stage	16.5	29.9
Sudan	Hides and Skins	1.8	30.7
Tanzania	Cotton	2.1	24.2
Togo	Coffee	3.0	8.6
Uganda	Cotton	1.9	23.0
Western Samoa	Cocoa	.3	0.6
Sub Total		30.0	143.0
ACP Countries Drawing on STABEX only:			
Benin	Groundnut, Coffee, Cotton and oilcake	7.9	
Burundi	Cotton, Hides and Skins	1.6	
Congo	Wood in the Rough Stage	8.1	
Ethiopia	Coffee, Hides and Skins	15.9	
Fiji	Coconut Oil	.6	
Ghana	Wood in the Rough Stage	5.7	
Niger	Groundnut, Hides and Skins	6.6	
Somalia	Bananas, Hides and Skins	2.1	
Upper Volta	Groundnut, Hides and Skins	.9	
Sub Total		49.4	

TABLE 31--Continued

	Product Covered	STABEX	IMF
ACP Countries Drawing on IMF Only:			
Chad			7.5
Guyana			11.5
Jamaica			30.5
Kenya			27.6
Mauritania			7.5
Sierra Leone			14.4
Zaire			65.0
Zambia			21.9
Sub Total			185.9
TOTAL		79.4	328.9

SOURCE: Commission of the European Communities, "Report on the Operation during 1975 on the System Set up by the Lomé Convention for Stabilizing Export Earnings," EEC Document COM (76), 656 Final, Brussels, EEC, December 9, 1976; and International Monetary Fund, IMF Survey, 1976, Washington, D.C., March 1977.

developing countries of the ACP. To this end, the Convention applies additional resources and introduces new methods of financing to meet the needs of the developing countries. Obviously, the Lomé Convention has wider geographical scope than the Yaoundé Conventions.

Financial Gains and Losses

An important aspect of the Association is that developing countries of the EEC-ACP Association are eligible to participate in the European Development Fund under the provisions of financial and technical cooperation. The provision allows for various ways of granting financial aid to the developing countries. The aid could take the forms of a straightforward subsidy, non-repayable grant, or normal loans at market rates. During the period of 1975-1976, the European Development Fund (EDF) proposed a $362 million financial and technical assistance program for the ACP countries. In addition to this aid, the developing countries of the EEC-ACP Association also received substantial bilateral and international aid from various sources, including former colonial masters.

This additional aid is an important complement to the EDF aid which is made up of grants rather than loans.[1] The grants are allocated over the duration of the Lomé Convention--1975-1980. Multilateral aid under the Lomé Convention has been increasing since 1975, while bilateral aid from EEC members has remained constant or in some cases has declined. This trend reflects the offsetting effects of increased aid from the Community as a whole, rather than from individual Community members to

[1]See data in Table 32.

TABLE 32

FINANCIAL AID FROM THE EEC
(In Millions of U.S. Dollars)

	ACP Countries	OCT[a]	Total
EDF TOTAL[b]	3,000	150	3,150
GRANTS	2,100	65	2,165
SPECIAL LOANS	430	40	470
RISK CAPITAL	95	5	100
STABEX	375	20	395
EIB TOTAL[c]	390	10	400

SOURCE: Commission of the European Communities, Information--Cooperation and Development, No. 129/76/X/E, Brussels, EEC, 1976.

[a]Overseas Countries and Territories of the Member States of the EEC.

[b]European Development Fund.

[c]Normal Loans from the European Investment Bank.

their former colonies where aid has been reduced.[1] Even though multilateral aid from the EEC has been an important element in the promotion of economic activity among the developing countries of the EEC-ACP Association, the total commitment constitutes a small fraction of total official aid to these countries.

Total aid from non-EEC industrial countries and from multilateral agencies such as the International Bank for Reconstruction and Development (I.B.R.D) and the United Nations Development Program (UNDP) has been increasing in recent years. If this trend continues, the relative importance of the EDF will tend to diminish.

The financial and technical cooperation under the Lomé Convention brought another important innovation--that of regional and interregional cooperation. Financing of regional projects has been one of the major obstacles because financing regional projects require more resources. Therefore, the availability of additional resources from the EDF could stimulate regional projects. "In order to avoid obstacles of this kind, the EEC and ACP countries have agreed that part of the EEC funds should be earmarked exclusively for financing regional projects."[2] This is very important to the ACP countries who become engaged in regional projects since most of the EDF resources are made up of grants for which the ACP countries may not be required to make repayments. Furthermore, this could certainly reduce the strain on the ACP countries'

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[1] Charles Van der Vaeren, Evolution of Financial and Technical Cooperation between the EEC and Associated Developing Countries, Commission of the European Communities, (Brussels, 1970), p. 40.

[2] . . . "The EEC-ACP Financial and Technical Cooperation--Lomé Dossier," The Courier, (Brussels, no. 31, March 1975), p. 36.

external payments.

The different types of regional projects already financed include the Senegal River Valley Development Scheme and the East and Central African Transport System. These are just a few of the noteworthy regional projects that the EEC is financing.

In addition to supporting development efforts, the EDF may have an impact on the ACP countries' balance-of-payments. The EDF may also have an impact on the external indebtedness of the ACP countries. For example, in recent years, the loans and debt servicing granted to ACP countries have grown by as much as 50 and 75 percent, respectively. In 1975, the ACP countries had the heaviest debt servicing ratios among developing countries which received aid from international agencies. The balance-of-payments continues to be a major obstacle to development efforts. Therefore, loans from the financial and technical cooperation program are very useful in providing a form of insurance against a high debt burden and balance-of-payment problems.

These institutions are still in their infancy stages and have already done preparatory work on 300 projects, but very little action has been taken towards industrialization. It is questionable whether the developing countries of the EEC-ACP Association will be able to pursue a really constructive industrial policy.

Firstly, it is not certain that the EEC would continue to grant privileges to manufactured goods from the ACP countries, and secondly, it is questionable if the ACP countries can effectively compete with the advanced industries of the EEC. Even with all the technical cooperation provided by Lomé, it is uneconomical for the ACP countries to operate capital intensive industries such as steel, heavy mechanical and electrical engineering. An exception could be small-scale processing industries; but there are no incentives provided for these kinds of industries under the STABEX facilities.

Finally, the ACP countries are hampered in their efforts to raise their standards of living because their markets are insufficient to sustain large scale industries.

The Lomé Convention in the Wider Content

This section will examine the Lomé Agreement in the light of other developments which may have a bearing on the agreements. International Commodity Agreements (ICA) and migrant labor in Europe are the issues Lomé II is likely to be faced with when the current Agreement expires.

International Commodity Agreements and National Benefits

Since the establishment of the STABEX program, there has been talk of establishing International Commodity Agreements because of the limited scope of the STABEX program. The ICA program is used to achieve various objectives. First, and perhaps most common among its purposes is the stabilization of prices for primary commodities. Primary commodities play an important role in the EEC-ACP Association members' foreign trade. Another and closely related objective is the stabilization of commodity export incomes. It is very easy to understand why the developing countries of the ACP would be concerned about export income instability because instability is likely to create problems in their long-term investment programs.

In this brief analysis of ICA, it is important to point out that the theory "stabilization of export earnings" will promote development in the primary producing countries. In the 1960's, MacBean failed to find a significant correlation between instability in export earnings and economic development.[1] Other investigations, however, have opposed MacBean's findings and confirmed the effects of export instability of the LDC's economic development.[2] Another objective of the ICA would be to assure a steady long-term growth of prices or incomes. If this objective is achieved by the ICA, the national benefit for the developing countries of the ACP would consist of an expanded and more predictable development potential. The ICA may be used to take advantage of the low short-term price elasticities of demand for many commodities that are exported by the ACP countries. This can be achieved by cutting supply and letting prices rise to very high levels so as to maximize income over a limited period of time.

The ICA System

If STABEX was eliminated, any commodity agreement would be based on the use of one or several of three measures. Prices for primary commodities can be stabilized or increased by adjusting the supply through

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[1] A. MacBean, Export Instability and Economic Development (Cambridge: Harvard University Press, 1966), p. 122.

[2] R. M. Sundrum, "The Measurement of Export Instability," mimeographed, June, 1967; A. Maziels, "Review of MacBean, Export Instability and Economic Development," American Economic Review, June, 1968, vol. 58, no. 3, pp. 575-580; S. Maya, "Fluctuations in Export Earnings and Economic Patterns of Asian Countries," Economic Development and Cultural Change, July, 1973, vol. 21, no. 4, pp. 629-641; C. Glezakos, "Export Instability and Economic Growth: A Statistical Verification," Economic Development and Cultural Change, July, 1973, vol. 21, no. 4, pp. 670-678.

the use of export quotas.

There are a number of arguments for and against the use of export quotas as an instrument for stabilizing the supply. It is not the writer's intention to get into the details of such arguments, but rather to briefly review a few of these arguments. The argument for export quotas support the idea that if export supply is cut when prices are declining, and supply expanded when prices start rising, the result will be a more even price trend. Export earnings for the ACP countries will rise as a result of restrictions in export volumes only when the price elasticity of demand for those commodities is less than one (1).

On the other hand, those against export quotas claim that substitution is a threat to these commodities when prices are too high, and consequently, price elasticity of demand is likely to be higher in the long-run than in the short-run. Opponents believe that for any export quotas to work successfully, all potential exporters must be included. If not, the outsiders will be tempted to take advantage of higher prices.

Another major problem with this type of stabilization instrument would be to get the participating members to agree on the volume of restrictions.[1] It is a fact that distribution of quotas according to pre-agreement export figures is a difficult task for participating countries. Export restrictions can be advantageous to the participating countries. It becomes advantageous when prices for those commodities begin rising. The advantage will be greater if production is diminished

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[1]For discussion in these problems on commodity stabilization, see Boris C. Swerling "Principles of Economic Policy, Consistent and Inconsistent: International Commodity Stabilization," American Economic Review, May, 1965, vol. 58, no. 2, pp. 65-74.

in accordance with the curtailment of exports. Therefore, export quotas can be an effective tool that the ACP countries can utilize to stabilize prices and increase export earnings, only if it is correctly utilized. Export quotas can cause some hardship on new low-cost producers if not correctly utilized because it can cause productive factors not to be utilized fully.

Another type of ICA measure is the buffer stocks method. It is used to diminish the validity of price movements in a commodity market. This type of measure will be very expensive to the ACP countries because it involves cost of storage and financing costs for establishing the buffer stock program. The second cost will depend a great deal on the price elasticities of demand and supply and also on the size and the expected shift in the demand and supply schedules. Financing costs will depend on the degree of price stability which the participating members are seeking.

An interesting observation about the relationships between buffer stock and price stabilization was brought out by Radetzki. He points out that "price stabilization with the help of buffer stocks will increase total export revenue when supply is the unstable variable, and decrease export income when changing demand is the cause of price swings."[1] Therefore, for the buffer stocks program to be successful, the ACP countries will have to maximize the net costs that are involved with the operation of a buffer stocks program.

However, it is not a beneficial program for the ACP countries

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[1] M. Radetzki, International Commodity Market Arrangements (London: C. Hurst, 1970), Chapter 6, Section 2.

because when supply varies, total export revenue will be destabilized and somewhat higher. When demand is unstable, export revenue will be stable, but its value will be decreased.

Lastly, the multilateral contract program is a measure consisting of an agreement between the exporting countries and the importing countries. The exporters supply specified quantities at or below specified prices and the importers, on the other hand, purchase a given quantity at or above prices which are jointly agreed upon by both parties. The most important feature of the multilateral contract is that it is not operated by the primary producing countries alone, but by both primary producers and consumers. Therefore, any decisions on prices and quantities are always negotiated between the importers and exporters.

Benefits of the ICA Programs

There are valid arguments for establishing ICA programs as a substitute for the STABEX program. The developing countries of the EEC-ACP Association have a lot to gain from closer collaboration, even though many economists will argue that market regulations will prevent prices from returning to equilibrium. This price distortion will then lead to various inefficiencies in the allocation of resources.

The perfect competitive market that opponents are hoping will get the market back to equilibrium does not exist in international commodity markets. Sellers and buyers are aware of their interdependence; but what is happening in the case of the EEC-ACP Association is that the buyers (EEC members) have organized themselves into a very powerful group and the market-determined equilibrium price under these conditions will be lower than the conditions under perfect competition.

It appears the ICA would bring some benefit to the developing countries of the ACP only if they put more emphasis on uniting and strengthening their bargaining power instead of trying to influence the market directly.[1]

Migration

The issue of migrant labor in Europe will become one of the main issues to be discussed when the Lomé Convention is renegotiated in 1980.

Growing concern over migration from the LDCs to the European countries has always been viewed negatively. The flow represents a "brain drain" for the LDC's; but there are some positive sides to this. First, this concern has encouraged a more comprehensive view in the Lomé Convention's negotiation on the economic/social web that links the developed countries of the EEC and the developing countries of the ACP. This will hopefully foster more rational policies as far as the relationship between the EEC and ACP countries are concerned. Secondly, the concerned may support the allocation of more resources to the development of the ACP economies. This broad flow of migrant labor to the EEC countries is an inevitable process that has occurred in former colonies of these European nations, as newer technologies exert their impacts. The flow is also a process which can only be controlled by attempting to reduce the economic and social differentials between the EEC and ACP countries.[2]

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[1]See Irving B. Kravis, "International Commodity Agreements to Promote aid and Efficiency: The Case of Coffee," Canadian Journal of Economics, 1968, vol. 1, pp. 295-317.

[2]See Alex J. Kondonassis, The European Economic Community in The Mediterranean: Developments and Prospects on Mediterranean Policy (Athens, Greece: Center for Planning and Economic Research, 1976), pp. 68-77.

To a certain extent, the flow of migrant labor to Europe may not be viewed as a brain drain from the ACP countries because a large percentage of these immigrants do not meet the basic growth requirements of the developing countries of the ACP. The requirements are in respect to infrastructure and, social overhead projects such as communications, and public health. The bulk of such requirements are met by multilateral programs such as those of the United Nations. This is not to say that the brain drain from the developing countries of the ACP is not significant, it is significant enough to have a healthy and widening influence on policy discussions in the next round of Lomé negotiations.

Conclusions

After twelve years in operation, the trade agreements between the EEC and the developing countries of the ACP suggest both positive and negative effects. It has been difficult to clearly isolate the positive contributions to the developing countries which have come as a result of association. There are some cases in which the associations' positive contributions can be identified. One such case is the export of coffee which increased during the period of Yaoundé II. The tariff advantage enjoyed by the ACP countries was partly responsible for this increase. Among the negative effects attributable to the association are the deterioration in the terms-of-trade of the developing countries and the loss of financial supports.

On the other hand, the Lomé Convention has not been in existence for a sufficient period to provide a valid assessment. But an important point needs to be made about certain provisions such as STABEX. The objective of compensatory finance is to provide equitable and easy access to the funds and to provide a broad coverage. Compensatory finance should compensate for as much of the short-fall as possible, and the terms of compensatory finance should not cause the country in question to incur obligations that pose obstacles to the development of its economy. These are the issues that STABEX failed to address.

In summary, the analysis shows that trade is likely to be an insignificant developmental factor in the short-fun. The developing countries are not likely to be in the position to develop their industrial sectors in the short-run. On the other hand, there may be some expansion in their agricultural sectors which enjoy some advantage in the EEC market at this time.

CHAPTER IX

SUMMARY AND CONCLUSION

The major objective of this study has been to offer an assessment of the probable economic and trade effects of the association between the EEC and the ACP countries, with special reference to the Lomé Convention.

In order to achieve this objective, it was necessary for the writer to center his attention on the discussion of the historical and theoretical merits of the Yaoundé and Arusha Agreements. The investigation did help to make an assessment of the new agreement--the Lomé Convention. The old agreements, Yaoundé and Arusha, granted the developing countries duty-free and quota-free provisions for all goods other than petroleum products and those covered by the Common Agricultural Policy of the EEC. Moreover, aid from the EEC to the ACP countries was widened to include capital investment, aid for production, and aid for diversification in production. The EEC did not apply any quantitative restrictions on imports from the developing countries of the Yaoundé and Arusha Conventions, but did apply them frequently to other developing countries outside of the Conventions.

The new agreement is made up of four basic parts. They are: trade liberalization allowing for non-reciprocity on the part of the ACP countries; financial aid to help stabilize the export receipts of the ACP countries; industrial cooperation between the EEC and the ACP countries and the transfer of technology to the ACP countries.

The general characteristic of the economies of the developing countries of the ACP group is their low level of economic growth. For example, the growth rate of the African members was 4.8 percent for the period 1960-1965, 4.0 percent for the period 1965-1969 and 4.4 percent for the period 1960-1969. This was below the 5 percent growth rate set by the United Nations First Development Decade. A low level of economic growth was also true for the Caribbean and Pacific members. Traditional theories are among those who have argued that a trade association between these groups of developing countries and the developed countries of the EEC may serve as a transmission belt for rapid economic growth in the LDCs.

There is a great deal of information available on the relationship of trade to development. Two schools of thought stand out. There are those who believe that trade and development should be focused on the allocation of resources and the general equilibrium conditions that exist in the economy (the pure trade theory). While others believe in the reaction of resources, and the expansion of production. Therefore, according to these schools of thought, when these theories are applied to the EEC-ACP experience, trade should be expected to serve as the potential super-engine of growth for the developing countries of the EEC-ACP Association.

To investigate these claims, two alternative approaches were adopted in this study. They were the "commodity analysis" and "commodity-terms-of trade" approaches. The commodity analysis examine the trends of certain commodities exported from the ACP countries to the EEC countries.

Available data made possible that the commodity analysis covered the period between 1960 and 1974, which is also the period covered by the Yaoundé and Arusha Agreements.

Next, the commodity-terms-of-trade approach was used to investigate the notion that trade between the developed and developing countries can serve as an engine of progress. Raúl Prebisch, who has shed some doubt on this claim, has argued that trade figures for developing countries show a declining secular trend over the years.

There are of course various definitions for terms-of-trade. Viner, for example, defines commodity-terms-of-trade as "the physical amount of foreign goods received in exchange for one physical unit of export goods." While Yotopoules and Nugent define income-terms-of-trade as "the volume of imports obtainable with total export earnings," and single factor-terms-of-trade as "the volume of import obtainable by a net of factors used in producing an export product." The writer borrowed from these definitions to formulate a definition of commodity-terms-of-trade. That is, the index of export prices (Yx) divided by import prices (Ym) equaled commodity-terms-of-trade and was denoted by (T).

The ACP countries were divided into two groups, the "landlocked and island countries" and the "non-landlocked and island countries." This approach was taken because of the different levels of economic development among the ACP countries. According to the United Nations, the landlocked and island countries are among the poorest in the world.

As far as measuring the terms-of-trade, the same period covered by the commodity analysis was chosen--the period 1960-1974. This period has a number of advantages. Firstly, dependable data on imports and exports were available. Secondly, this was the period in which the EEC expanded from six to nine members, and thirdly, the ACP countries were going through a stage of economic development in which modern societies were replacing the traditional societies.

It can be concluded that the Yaoundé and Arusha trade associations did not prove to be the anticipated engines for growth, and that there are no clear indications suggesting that the case will be different regarding the Lomé Convention.

The commodity and commodity-terms-of-trade analyses in the study have not demonstrated that the developing ACP countries have moved closer to their development targets or that their trade patterns have been significantly influenced by the Associations. It has been demonstrated that during the associations, the total exports from the ACP countries were less than the total EEC demand which has reflected the widening of preferential treatment and the shift from national to EEC preferential treatment. This move has resulted in the reduction of the quantity demanded by the EEC market. There is evidence that the ACP countries would receive a similar or higher preferential treatment with further expansion of the association to 52 developing members.

With the exception of Germany and Luxembourg, all of the EEC members have maintained special relations with the ACP countries. Their commercial policies towards the ACP countries have varied greatly. Before the association, exports from the ACP countries to the EEC countries were highly protected. The study has shown that the majority of the ACP countries' markets have been affected in three main ways: preferential tariff treatment, quantitative controls on imports from third countries, and price-guarantee schemes. For example, cotton producers have received direct subsidies, and there has been a system of pairing which has required importers to purchase a given amount of the same primary products from ACP producers.

Concerning the Lomé Agreement; the study has shown that it is not radically different from the old agreements. Little trade is expected in the short-run because of the high tariff preferences and the price-guarantees. Experiences from the Yaoundé and Arusha do not provide any hope that the association will become an engine for growth.

It will be remembered that the innovative features of the Lomé Convention include: trade liberalization, non-reciprocity of trade obligation and the STABEX scheme. An assessment of the innovative provisions of the Lomé Convention suggests that they are more or less symbolic and cosmetic measures. The study has shown that the majority of the ACP countries have spent most of their export earnings on imports from the EEC markets. Denials of the transfer of funds from STABEX, because of its limited scope in the scheme, did not bring the ACP countries closer to their development targets of the '70's.

It has also been pointed out that aid did increase during the period of the association. Furthermore, it can be concluded that the policymakers of the ACP countries have put a high premium on industrial cooperation and transfer of technology because of their desire to diversify and industrialize their economies. It does not appear likely, however, that this will happen in the short-run. Therefore, it seems necessary that the ACP countries adopt a simple trade policy to use an instrument for economic development. This policy must be in part an overall trade policy for the developing countries of the EEC-ACP Association.

The trade pattern shown in Chapter VI and the terms-of-trade analysis contained in Chapter VII show that the association under prevailing conditions will not become an engine for growth. STABEX, in the author's opinion, is not only less flexible than the IMF system, but it is likely to discourage adequate investment in the production and supply of primary commodities if left in its present form. It is suggested that the ACP countries should not be pre-occupied with export stabilization, but rather seek to relate the prices of primary commodities to the prices of industrial products from the EEC markets.

At the same time, the ACP countries should seek to expand trade among themselves so as to foster the process of their economic growth. This should strengthen their overall position in relation to the EEC-ACP Association. Expansion of trade can be achieved by implementing a common commercial policy without commitments to implement other common policies such as monetary and fiscal policies. Such additional commitments in the past have caused problems for trade expansion among the developing countries. The objective of a common commercial policy should be to reduce the trade barriers that exist among these countries. This could only be achieved if the EEC members dropped the provision in the Lomé Convention for a "most favorable nation trade (MFN)".

The coordination of a common investment and production programs for the ACP countries would help in the achievement of their development targets. The objective in this case would be to recognize the importance of division of labor among the ACP countries which could increase efficiency among them. Such a policy might lead to specialization or "sectoral integration". This approach might inspire the countries to establish the conditions for joint action where only one sector is considered. Furthermore, they might seek to integrate a given sector at each successive stage and be free to make the necessary adjustments in order to achieve success. Therefore, the ACP countries might be able to utilize the provisions in the Lomé Convention more efficiently by influencing their trade with the EEC.

In the long-run, any successful growth patterns realized in the agricultural sector might be translated to growth in other related sectors such as processing industries and small scale manufacturing industries. These changes would tend to affect the relative rates of capital formation, income growth and structural growth in the entire economies, and possibly create changes in the factors of production.

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APPENDIX A

EXPORTS, IMPORTS TO AND FROM THE EEC BY THE LANDLOCKED AND ISLAND COUNTRIES OF THE EEC-ACP ASSOCIATION

ACP COUNTRIES EXPORTS/IMPORTS		1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
Chad																
	Yx	9.6	17.3	9.9	15.2	17.3	14.4	13.1	19.1	22.0	27.0	22.0	5.0	20.0	1.0	35.0
	Ym	13.8	12.5	22.5	31.1	29.3	17.8	19.3	25.0	26.0	29.0	34.0	35.0	30.0	43.0	54.0
Cent. Af. Rep.																
	Yx	14.5	15.9	18.0	20.0	22.2	20.2	25.9	35.0	33.0	27.0	27.0	24.0	27.0	23.0	35.0
	Ym	73.8	71.1	50.0	58.5	73.4	64.3	58.7	40.0	41.4	49.3	85.1	100.0	92.6	39.0	46.0
Gambia																
	Yx	0.1	2.5	5.3	5.1	4.8	3.2	2.6	7.3	12.0	13.0	14.0	14.0	15.0	22.0	42.0
	Ym	0.6	1.3	0.9	0.8	0.8	1.3	1.4	1.8	10.0	8.0	9.0	10.0	11.0	15.0	21.0
Guinea Bissau																
	Yx	0.8	1.3	2.1	2.5	2.1	2.4	2.7	5.5	1.0	2.0	---	---	---	---	---
	Ym	0.7	0.8	2.0	1.4	2.0	4.2	5.9	3.6	3.0	6.0	5.0	9.0	6.0	5.0	7.0
Guinea																
	Yx	21.6	18.9	12.5	13.1	NA	8.6	8.7	6.9	17.0	9.0	13.0	14.0	19.0	8.0	27.0
	Ym	18.0	24.4	20.5	17.8	NA	21.4	21.4	17.3	17.0	19.0	43.0	40.0	53.0	35.0	47.0
Ethiopia																
	Yx	11.6	13.4	16.7	17.1	17.4	19.2	23.0	19.8	25.0	30.0	24.0	26.0	39.0	67.0	81.0
	Ym	27.4	31.1	32.7	38.0	48.2	56.3	72.3	58.9	84.0	77.0	79.0	84.0	79.0	99.0	122.0

APPENDIX A--Continued

ACP COUNTRIES EXPORTS/IMPORTS	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
Lesotho															
Yx	NA	NA	NA	NA	NA	NA	NA	NA	NA	118.0	136.0	192.0	224.0	---	2.0
Ym	NA	NA	NA	NA	NA	NA	NA	NA	NA	38.0	0,0	245.0	376.0	1.0	4.0
Malagasy Rep.															
Yx	46.2	44.9	55.1	49.9	55.4	48.0	51.8	43.4	50.0	20.0	23.0	21.0	82.0	98.0	118.0
Ym	86.3	82.7	98.7	104.3	109.3	99.2	103.7	110.7	133.0	67.0	84.0	94.0	135.0	134.0	149.0
Malawi															
Yx	NA	NA	NA	NA	NA	NA	NA	NA	NA	25.0	29.0	42.0	42.0	54.0	56.0
Ym	NA	NA	NA	NA	NA	NA	NA	NA	NA	27.0	29.0	41.0	40.0	49.0	65.0
Mali															
Yx	5.1	2.5	1.8	2.2	0.7	0.9	0.4	1.6	4.0	6.0	8.0	13.0	17.0	19.0	27.0
Ym	11.8	26.6	23.6	13.6	13.4	11.2	9.1	17.5	13.0	16.0	23.0	36.0	41.0	59.0	66.0
Mauritius															
Yx	0.3	0	0.5	1.7	2.9	0.2	0.2	0.4	49.0	47.0	46.0	36.0	65.0	64.0	124.0
Ym	8.8	0	8.0	10.7	10.1	11.3	12.9	12.7	31.0	20.0	28.0	32.0	45.0	70.0	107.0
Mauritania															
Yx	0.8	0.7	1.3	11.1	30.3	30.3	39.4	48.5	67.0	76.0	76.0	84.0	95.0	103.0	133.0
Ym	7.2	26.1	27.8	22.3	10.5	14.8	14.2	20.0	26.0	29.0	28.0	30.0	49.0	65.0	91.0

APPENDIX A--<u>Continued</u>

ACP COUNTRIES EXPORTS/IMPORTS		1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
Niger																
	Yx	8.9	12.0	8.1	13.9	13.8	14.7	23.3	17.7	20.0	17.0	20.0	31.0	32.0	NA	NA
	Ym	7.6	10.2	16.0	12.9	21.9	24.2	27.6	27.4	26.0	31.0	37.0	31.0	41.0	NA	NA
Rwanda																
	Yx	29.6	32.7	28.3	31.8	35.0	31.1	36.7	33.5	42.0	5.0	6.0	6.0	7.0	8.0	17.0
	Ym	38.8	41.7	46.2	50.1	65.3	72.3	77.1	84.0	95.0	10.0	12.0	16.0	11.0	13.0	26.0
Sao Tome & Principe																
	Yx	1.5	1.1	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	1.0	7.0	7.0
	Ym	0.2	0.2	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	1.0	2.0	2.0
Somalia																
	Yx	12.9	14.7	13.0	15.7	14.7	16.2	14.9	14.1	9.0	9.0	8.0	8.0	13.0	10.0	17.0
	Ym	10.0	10.9	11.9	13.5	19.4	16.2	16.3	16.6	23.0	25.0	20.0	28.0	40.0	49.0	74.0
Sudan																
	Yx	40.2	52.9	64.3	69.7	70.2	67.4	74.2	80.0	102.0	98.0	102.0	94.0	98.0	159.0	160.0
	Ym	36.3	49.1	50.6	61.3	54.5	33.6	41.4	37.6	96.0	108.0	109.0	101.0	123.0	164.0	242.0
Swaziland																
	Yx	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	20.0	20.0	22.0	32.0	43.0
	Ym	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	1.0	1.0	2.0	2.0	2.0

APPENDIX A--Continued

ACP COUNTRIES EXPORTS/IMPORTS		1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
Tanzania																
	Yx	38.2	29.7	31.3	37.3	43.2	33.4	36.9	34.5	88.0	93.0	89.0	91.0	92.0	92.0	134.0
	Ym	15.4	14.6	13.3	14.9	21.0	14.9	21.0	34.5	113.0	98.0	127.0	139.0	140.0	168.0	231.0
Togo																
	Yx	11.4	13.5	12.1	13.6	21.6	21.6	27.8	25.0	34.0	42.0	48.0	43.0	50.0	55.0	179.0
	Ym	16.9	14.2	13.1	14.0	20.8	25.2	24.0	21.3	28.0	39.0	42.0	46.0	60.0	69.0	89.0
Uganda																
	Yx	25.0	25.6	14.4	22.8	31.9	32.9	22.9	20.4	61.0	59.0	71.0	89.0	91.0	125.0	110.0
	Ym	8.7	7.9	7.8	9.9	19.8	24.4	29.5	29.6	72.0	72.0	67.0	108.0	64.0	54.0	76.0
Upper Volta																
	Yx	0.2	0.4	1.5	2.6	3.0	2.5	3.1	3.4	4.0	6.0	6.0	6.0	8.0	14.0	24.0
	Ym	6.3	18.3	19.8	20.2	19.4	22.6	20.6	20.1	20.0	30.0	28.0	30.0	32.0	55.0	78.0
Zambia																
	Yx	117.9	124.0	136.8	152.3	NA	NA	NA	NA	472.0	638.0	549.0	319.0	351.0	595.0	626.0
	Ym	41.9	47.7	41.1	42.3	NA	NA	NA	NA	183.0	159.0	194.0	216.0	222.0	226.0	361.0
Bahamas																
	Yx	0	0	0	0.3	NA	0.4	0.3	NA	5.0	14.0	12.0	15.0	15.0	18.0	32.0
	Ym	1.2	1.6	3.3	4.0	NA	5.1	5.7	NA	31.0	59.0	83.0	50.0	118.0	93.0	94.0

APPENDIX A--Continued

ACP COUNTRIES EXPORTS/IMPORTS		1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
Barbados																
	Yx	0	0.4	0.4	0.5	0.2	0.6	0	NA	15.0	15.0	18.0	15.0	18.0	19.0	14.0
	Ym	5.0	4.6	5.8	5.6	5.8	5.4	5.7	NA	32.0	26.0	55.0	53.0	51.0	58.0	61.0
Guyana																
	Yx	NA	NA	NA	NA	NA	5.0	5.8	4.2	28.0	34.0	32.0	47.0	61.0	52.0	82.0
	Ym	NA	NA	NA	NA	NA	10.3	12.4	17.7	45.0	49.0	55.0	55.0	49.0	64.0	77.0
Jamaica																
	Yx	3.0	3.8	3.9	5.7	4.1	4.8	5.5	3.3	56.0	55.0	57.0	73.0	93.0	105.0	109.0
	Ym	30.0	28.7	27.6	28.3	29.7	32.1	35.9	28.6	116.0	127.0	144.0	160.0	167.0	176.0	195.0
Trinidad and Tobago																
	Yx	31.0	42.6	50.7	57.3	60.1	59.8	40.0	24.2	69.0	65.0	60.0	63.0	65.0	NA	NA
	Ym	20.9	17.6	17.8	14.2	15.7	14.7	16.7	17.6	81.0	88.0	98.0	115.0	131.0	NA	NA
Fiji																
	Yx	0.5	0.5	2.8	2.7	2.5	1.7	0.7	0.3	21.0	22.0	23.0	21.0	23.0	22.0	46.0
	Ym	0.9	0.8	1.1	1.5	1.3	1.5	2.5	2.6	19.0	20.0	22.0	27.0	34.0	37.0	33.0
Papua New Guinea																
	Yx	NA	NA	NA	NA	NA	NA	NA	NA	NA	0	NA	NA	44.0	132.0	150.0
	Ym	NA	NA	NA	NA	NA	NA	NA	NA	NA	9.0	NA	NA	5.0	23.0	19.0

APPENDIX A--Continued

ACP COUNTRIES EXPORTS/IMPORTS		1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
Samoa																
	Yx	NA	NA	NA	NA	NA	NA	NA	NA	2.0	4.0	2.0	3.0	1.0	3.0	4.0
	Ym	NA	NA	NA	NA	NA	NA	NA	NA	1.0	1.0	2.0	1.50	3.0	1.0	2.0

SOURCES: International Monetary Fund, Direction of Trade, 1960-1964, Washington, D.C., 1965.
International Monetary Fund, Direction of Trade, 1963-1967, Washington, D.C. 1968.
International Monetary Fund, Direction of Trade, 1968-1972, Washington, D.C. 1973.
International Monetary Fund, Direction of Trade, 1969-1974, Washington, D.C. 1975.

APPENDIX B

EXPORTS IMPORTS TO AND FROM THE EEC BY NON-LANDLOCKED
COUNTRIES OF THE EEC-ACP ASSOCIATION

		1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
Angola																
	Yx	32.9	31.6	36.0	42.7	57.3	51.8	49.0	38.1	53.0	84.0	115.0	75.0	92.0	112.0	194.0
	Ym	24.3	19.5	27.4	29.9	28.8	35.9	44.5	76.1	106.0	106.0	127.0	149.0	153.0	205.0	237.0
Cameroon																
	Yx	81.9	81.8	83.7	98.7	72.9	91.8	89.3	87.7	137.0	177.0	168.0	144.0	169.0	262.0	380.0
	Ym	56.5	61.9	65.6	74.1	68.5	98.9	100.4	136.9	142.0	154.0	178.0	183.0	199.0	229.0	313.0
Congo (Brazz.)																
	Yx	13.8	12.5	22.5	31.1	29.3	28.2	26.3	29.3	32.0	48.0	19.0	22.0	29.0	92.0	184.0
	Ym	52.5	58.2	53.4	46.3	48.8	43.2	53.2	61.3	66.0	66.0	45.0	60.0	71.0	115.0	144.0
Dahomey																
	Yx	14.1	10.4	8.4	10.8	11.6	11.0	7.0	8.5	13.0	17.0	21.0	30.0	27.0	37.0	41.0
	Ym	19.9	14.9	18.0	23.2	21.0	23.6	22.5	30.2	34.0	35.0	41.0	46.0	59.0	68.0	82.0
Gabon																
	Yx	36.8	42.6	44.8	49.5	62.8	63.7	63.5	68.4	66.0	81.0	72.0	130.0	161.0	NA	NA
	Ym	21.8	26.0	28.2	34.4	39.6	44.7	48.8	50.6	51.0	65.0	62.0	78.0	112.0	NA	NA
Ghana																
	Yx	114.1	102.8	90.1	87.1	94.3	88.4	59.0	59.7	181.0	200.0	226.0	168.0	156.0	260.0	321.0
	Ym	92.7	86.8	79.8	92.5	78.3	95.8	74.4	64.4	150.0	169.0	191.0	234.0	116.0	195.0	372.0

APPENDIX B—Continued

		1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
Ivory Coast																
	Yx	79.2	122.0	125.4	161.8	176.9	169.5	190.1	210.0	283.0	314.0	309.0	294.0	393.0	542.0	784.0
	Ym	95.1	123.4	113.0	127.0	172.2	179.0	184.0	189.0	225.0	236.0	272.0	278.0	331.0	454.0	585.0
Kenya																
	Yx	29.1	26.3	30.9	34.8	34.0	33.5	40.5	27.6	79.0	82.0	83.0	82.0	120.0	147.0	182.0
	Ym	44.6	34.7	39.0	45.5	40.1	42.8	59.6	65.6	169.0	172.0	199.0	267.0	248.0	283.0	415.0
Liberia																
	Yx	25.2	23.7	31.5	45.7	76.4	69.8	114.4	121.3	110.0	118.0	136.0	192.0	224.0	224.0	347.0
	Ym	13.1	20.0	81.2	86.7	85.3	22.5	41.2	41.5	36.0	38.0	60.0	245.0	376.0	68.0	438.0
Nigeria																
	Yx	139.4	162.5	159.7	194.9	215.4	270.5	280.7	269.2	400.0	585.0	821.0	1125.0	1310.0	1824.0	4135.0
	Ym	118.2	124.2	109.8	125.7	164.8	191.0	189.8	161.3	321.0	425.0	620.0	878.0	886.0	1140.0	1509.0
Senegal																
	Yx	94.5	101.8	109.7	98.2	102.5	110.2	121.5	108.3	122.0	95.0	103.0	78.0	148.0	118.0	264.0
	Ym	132.9	118.2	115.3	120.1	120.5	107.3	104.4	131.4	108.0	126.0	129.0	136.0	204.0	220.0	304.0
Sierra Leone																
	Yx	9.7	12.4	13.3	14.2	15.9	17.7	17.4	14.5	86.0	89.0	83.0	75.0	91.0	108.0	120.0
	Ym	9.2	14.0	14.4	16.7	21.8	23.0	23.8	19.9	44.0	54.0	56.0	55.0	57.0	75.0	93.0

APPENDIX B--Continued

		1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
Surinam																
	Yx	4.7	5.4	5.0	5.2	7.8	5.6	8.0	29.6	27.0	47.0	53.0	67.0	56.0	61.0	81.0
	Ym	21.1	20.5	19.8	21.3	19.4	26.5	28.3	24.1	39.0	35.0	39.0	42.0	46.0	59.0	63.0
Zaire																
	Yx	360.8	314.4	269.2	243.7	286.2	292.5	414.8	383.0	506.0	508.0	535.0	477.0	504.0	905.0	1238.0
	Ym	115.2	93.2	98.4	95.9	126.7	132.2	143.6	131.7	203.0	248.0	323.0	389.0	383.0	480.0	667.0

SOURCE: International Monetary Fund, Direction of Trade, 1960-1964, Washington, D.C., 1965.
International Monetary Fund, Direction of Trade, 1963-1967, Washington, D.C., 1968.
International Monetary Fund, Direction of Trade, 1969-1974, Washington, D.C., 1975.

APPENDIX C

EEC COFFEE IMPORTS FROM THE MAJOR ACP PRODUCERS (1960-1974) (in thousands of U.S. dollars)

	1960	1961	1962	1963	1964	1965	1966	1967
Ivory Coast	54,942	53,344	56,694	65,266	71,347	54,876	65,463	53,668
Guinea	5,392	441	48	190	358	851	1,527	752
Togo	2,840	4,124	5,007	3,052	9,451	6,283	8,957	4,220
Zaire	---	12,425	10,724	12,260	20,197	23,536	20,913	28,395
Ethiopia	---	3,736	4,258	4,464	5,376	6,051	6,010	4,948
Madagascar		2,567	---	19,423	23,734	16,350	17,978	15,798
Trinidad/Tobago	---	---	---	541	936	427	344	---
Angola	---	---	---	21,884	37,784	38,827	33,206	32,912
Uganda				11,066	8,445	9,174	31,905	36,290
Kenya		33,374	35,161	35,569	39,427	29,108	31,654	30,061
Tanzania				7,077	7,610	7,884	10,294	8,775
TOTAL ACP	63,174	110,011	111,892	180,792	224,665	193,367	223,251	215,819

APPENDIX C--Continued

	1968	1969	1970	1971	1972	1973	1974
Ivory Coast	75,430	68,253	96,969	206,000	73,687	103,837	171,939
Guinea	617	950	1,849	7,000	246	936	2,563
Togo	6,534	8,012	9,214	---	10,831	8,025	16,477
Zaire	33,038	27,961	2,387	---	48,147	57,936	53,456
Ethiopia	7,607	6,770	8,653	---	8,896	9,347	8,643
Madagascar	19,632	18,089	---	---	7	---	39,285
Trinidad/Tobago	745	75	---	---	234	82	72
Angola	29,384	32,316	---	16,000	33,372	33,017	32,643
Uganda	31,683	2,882	---	---	22,744	66,735	74,911
Kenya	22,654	18,926	---	---	34,434	67,671	73,606
Tanzania	11,657	7,855	---	---	45,281	28,866	24,244
TOTAL ACP	238,981	192,089	119,072	129,000	277,879	376,452	497,839

SOURCE: Organization for Economic Cooperation and Development, Foreign Trade, Series C: Commodity Trade, 1960-1974, Paris, OECD, 1960 to 1974.

APPENDIX D

EEC COCOA IMPORTS FROM THE
ACP COUNTRIES, 1960-1974
(in thousands of U.S. dollars)

	1960	1961	1962	1963	1964	1965	1966	1967	1968
Ivory Coast	22,433	20,734	26,601	31,992	34,616	40,539	41,052	NA	74,665
Togo	3,999	3,411	3,945	4,810	5,273	7,193	6,531	9,121	10,509
Ghana	59,337	57,745	27,864	86,704	68,051	54,326	64,014	57,271	74,282
Nigeria	33,940	31,349	48,797	56,024	64,419	53,877	53,309	68,132	64,047
Cameroon	34,708	28,655	31,103	38,701	37,712	32,949	25,459	39,925	52,711
Jamaica	---	---	---	13	171	93	318	647	591
Trinidad/Tobago	---	---	---	3,219	1,608	1,011	1,213	1,899	1,337
Equatorial Guinea	1,358	450	885	1,853	2,174	1,190	1,808	2,579	3,480
Zaire	2,618	2,407	2,382	2,623	2,680	1,479	2,153	3,114	3,342
TOTAL ACP	158,393	144,751	141,577	225,939	216,704	192,657	195,857	182,688	284,964

APPENDIX D--Continued

	1969	1970	1971	1972	1973	1974
Ivory Coast	97,882	74,483	82,000	88,194	122,817	197,932
Togo	19,614	18,774	14,000	10,420	15,650	20,011
Ghana	42,485	35,369	47,500	60,584	107,152	190,814
Nigeria	51,350	27,875	5,000	72,809	82,777	91,870
Cameroon	70,401	61,360	60,000	61,877	75,885	141,225
Jamaica	874	---	---	494	1,391	1,716
Trinidad/ Tobago	773	---	---	---	1,891	1,847
Equatorial Guinea	4,322	3,265	1,500	2,939	40	9,511
Zaire	4,472	3,630	1,500	3,784	5,606	7,048
TOTAL ACP	292,173	224,756	211,500	301,101	413,209	661,974

SOURCE: Organization for Economic Cooperation and Development, Foreign Trade, Series C: Commodity Trade, 1960-1974, Paris, OECD, 1960-1974.

APPENDIX E

EEC TEA IMPORTS FROM THE ACP
COUNTRIES, 1960-1974
(in thousands of U.S. dollars)

	1960	1961	1962	1963	1964	1965	1966	1967
Kenya				11,439	14,052	13,864	20,850	NA
Tanzania	12,578	98	1,699	3,369	3,465	4,173	5,385	4,756
Uganda				2,034	1,937	2,701	3,074	3,623
Malawi	NA	NA	NA	NA	NA	7,342	9,708	9,052
Mozambique	NA	NA	NA	NA	NA	NA	NA	NA
Zaire	NA	119	238	1,736	597	1,364	1,388	1,376
TOTAL ACP	12,578	217	1,937	18,578	20,051	29,444	40,405	18,807

APPENDIX E--Continued

	1968	1969	1970	1971	1972	1973	1974
Kenya	21,930	22,404	NA	235	36,576	36,998	37,538
Tanzania	5,448	5,696	NA	NA	6,656	7,700	7,506
Uganda	4,595	7,723	NA	NA	8,810	7,727	7,535
Malawi	8,529	8,130	NA	NA	9,302	10,028	11,065
Mozambique	NA	7,568	NA	NA	12,162	12,258	NA
Zaire	1,279	181	NA	NA	1,259	1,130	1,014
TOTAL ACP	41,781	51,702	NA	235	74,765	75,841	64,658

SOURCE: Organization for Economic Cooperation and Development, Foreign Trade, Series C: Commodity Trade, 1960-1974, Paris OECD, 1960-1974.

APPENDIX F

EEC SUGAR IMPORTS FROM THE ACP COUNTRIES 1960-1974 (in thousands of U.S. dollars)

	1960	1961	1962	1963	1964	1965	1966	1967
Jamaica	47,440	48,338	46,543	50,134	42,953	35,236	31,645	29,535
Trinidad/ Tobago	26,700	27,061	26,340	27,783	24,897	19,705	17,975	21,032
Zaire	701	650	700	850	976	1,000	1,250	55
Madagascar	1,423	1,500	1,450	1,350	2,000	3,290	1,732	2,500
TOTAL ACP	76,264	77,549	75,033	80.11[illegible]	70,826	59,231	52,602	53,122

APPENDIX F--Continued

	1968	1969	1970	1971	1972	1973	1974
Jamaica	26,760	27,242	27,000	32,509	38,019	45,169	29,406
Trinidad/ Tobago	16,129	25,421	25,693	25,149	26,238	24,061	28,460
Zaire	2,589	37	324	612	569	655	1,037
Madagascar	3,000	NA	NA	NA	1,064	NA	NA
TOTAL ACP	48,478	52,700	53,017	58,270	65,890	69,885	58,903

SOURCE: Organization for Economic Cooperation and Development, Foreign Trade, Series C: Commodity Trade, 1960-1974, Paris, OECD, 1960-1974.

APPENDIX G

EEC BANANA IMPORTS FROM ACP
COUNTRIES, 1960-1974
(in thousands of U.S. dollars)

	1960	1961	1962	1963	1964	1965	1966	1967
Ivory Coast	NA	NA	NA	23,440	17,677	22,690	21,455	26,589
Cameroon	NA	NA	NA	20,175	18,898	21,074	12,455	9,886
Somalia	NA	NA	NA	19,651	13,583	23,908	17,507	13,558
Zaire	NA	NA	NA	1,486	1,101	677	785	527
TOTAL ACP	NA	NA	NA	64,752	51,259	68,349	52,202	50,560

APPENDIX G--Continued

	1968	1969	1970	1971	1972	1973	1974
Ivory Coast	24,600	22,301	NA	NA	28,008	24,759	19,831
Cameroon	8,576	8,845	NA	NA	12,370	14,644	7,677
Somalia	NA	12,419	NA	NA	7,675	6,799	NA
Zaire	430	75	NA	NA	NA	NA	NA
TOTAL ACP	33,606	43,640	NA	NA	48,053	46,202	27,508

SOURCE: Organization for Economic Cooperation and Development, Foreign Trade Series C: Commodity Trade, 1960-1974, Paris, OECD, 1960-1974.

APPENDIX H

EEC COPPER IMPORTS FROM ACP
COUNTRIES, 1960-1974
(in thousands of U.S. dollars)

	1960	1961	1962	1963	1964	1965	1966	1967
Zaire	NA	NA	136	175,078	NA	NA	NA	NA
Zambia	NA	206	NA	254,206	NA	3,000	753	NA
TOTAL ACP	NA	206	136	429,284	NA	3,000	753	NA

APPENDIX H--Continued

	1968	1969	1970	1971	1972	1973	1974
Zaire	NA	807	NA	NA	1,320	63,012	915,496
Zambia	NA	96	NA	NA	6,000	49,740	652,291
TOTAL ACP	NA	903	NA	NA	7,320	112,752	1,567,787

SOURCE: Organization for Economic Cooperation and Development, Foreign Trade Series C: Commodity Trade, 1960-1974, Paris, OECD, 1960-1974.

APPENDIX I

EEC IRON ORE IMPORTS FROM
ACP COUNTRIES 1960-1974
(in thousands of U.S. dollars)

	1960	1961	1962	1963	1964	1965	1966	1967
Guinea	593	NA	653	1,520	1,334	1,699	717	115
Liberia	2,479	22,763	24,862	50,480	92,212	122,187	271,037	130,451
Mauritania	NA	NA	NA	12,998	52,682	68,026	75,412	74,387
Swaziland	NA	NA	NA	NA	NA	NA	NA	NA
TOTAL ACP	3,072	22,763	25,515	64,998	146,228	191,912	347,166	204,953

APPENDIX I--Continued

	1968	1969	1970	1971	1972	1973	1974
Guinea	NA	NA	NA	NA	NA	NA	NA
Liberia	132,530	133,796	NA	NA	184,623	242,119	364,741
Mauritania	71,001	76,786	NA	NA	91,163	98,502	166,733
Swaziland	NA	NA	NA	NA	1,578	NA	34,003
TOTAL ACP	203,531	210,582	NA	NA	277,364	340,621	565,477

SOURCE: Organization for Economic Cooperation and Development, Foreign Trade Series C: Commodity Trade, 1960-1974, Paris, OECD, 1960-1974

APPENDIX J

EEC COTTON IMPORTS FROM THE
ACP COUNTRIES, 1960-1974
(in thousands of U.S. Dollars)

	1960	1961	1962	1963	1964	1965	1966	1967
Sudan	57,614	27,156	38,405	56,893	47,500	37,449	43,811	51,897
Upper Volta	NA	155	NA	154	920	334	925	1,295
Nigeria	13,452	9,786	8,861	20,162	11,400	659	13,859	12,896
Cameroon	4,290	4,412	6,293	8,395	8,532	8,213	11,761	8,917
Chad	16,140	NA	NA	NA	NA	NA	NA	NA
Cent. Af. Rep.		NA	NA	NA	NA	NA	NA	NA
Burundi	21,568	NA	NA	1,214	964	138	1,168	1,345
Uganda	19,963	21,144	12,094	2,987	1,359	211	14,440	20,296
Tanzania		62,653	65,653	4,784	5,541	2,693	9,503	7,107
TOTAL ACP	133,027			94,589	76,216	49,697	95,467	103,753

APPENDIX J--Continued

	1968	1969	1970	1971	1972	1973	1974
Sudan	60,709	56,231	45,423	NA	37,106	49,210	58,313
Upper Volta	2,418	2,619	3,750	NA	4,407	7,640	11,579
Nigeria	10,576	6,940	12,215	NA	912	1,621	168
Cameroon	94,490	10,078	7,361	NA	7,402	8,663	7,626
Chad	NA	NA	NA	NA	19,516	18,543	31,094
Cent. Af. Rep.	NA	NA	NA	NA	6,607	7,320	11,856
Burundi	1,670	1,514	467	NA	1,378	1,138	745
Uganda	9,990	8,951	9,422	NA	6,852	9,153	7,650
Tanzania	5,097	4,517	2,298	NA	1,716	1,258	460
TOTAL ACP	184,950	90,850	80,936	NA	85,896	104,546	129,491

SOURCE: Organization for Economic Cooperation and Development, Foreign Trade Series C: Commodity Trade, 1960-1974, Paris, OECD, 1960-1974.

APPENDIX K

AVERAGE SPOT PRICE OF COFFEE
IN N.Y.
(in cents per pound)

YEAR	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Average
1960	36.6	37.0	37.0	37.1	37.3	37.5	36.9	36.4	36.9	36.8	36.5	36.6	36.9
1961	36.8	36.9	37.8	37.3	37.5	37.8	37.5	36.5	35.3	34.0	34.1	34.1	36.3
1962	34.5	34.5	34.5	34.5	35.0	34.8	34.8	34.8	34.0	34.0	33.8	34.0	34.4
1963	34.0	33.8	33.5	33.5	33.0	34.5	33.8	33.5	33.5	35.3	38.0	38.0	34.6
1964	48.0	46.5	50.5	50.0	49.0	48.5	47.5	47.3	45.5	48.3	47.5	45.8	47.9
1965	45.0	46.3	45.3	45.8	45.3	46.0	45.5	45.5	44.5	43.8	43.8	44.0	45.1
1966	44.0	42.5	42.0	42.3	41.3	41.0	40.6	41.3	41.0	40.3	40.3	39.8	41.4
1967	39.5	38.8	38.8	38.5	38.8	39.5	38.8	38.0	38.0	37.5	37.5	37.3	38.4
1968	37.3	37.5	37.5	37.5	38.0	37.8	37.8	37.8	37.5	37.8	37.8	37.5	37.6
1969	37.5	37.5	38.3	38.0	37.8	37.5	37.5	39.0	41.0	47.8	49.0	48.5	40.8
1970	54.8	54.8	54.3	53.8	53.8	53.8	56.8	57.0	57.8	58.8	57.5	55.0	55.7
1971	55.0	55.0	48.0	45.0	43.8	43.8	43.0	43.3	43.3	43.3	44.0	44.0	46.1
1972	NA	NA	NA	46.3	48.0	48.5	NA	62.5	59.0	58.0	56.0	57.0	54.4
1973	57.0	68.0	65.5	65.0	65.0	67.0	70.0	70.0	72.5	72.3	73.0	72.0	67.6
1974	72.0	71.0	75.0	75.5	76.5	74.0	72.0	63.0	60.0	64.0	69.0	70.0	70.2

SOURCE: Commodity Yearbooks, 1974, 1975 and 1976 (Commodity Research Bureau, Inc.: New York, N.Y.)

APPENDIX L

TOTAL COFFEE (FOR CONSUMPTION) IMPORTS INTO THE UNITED STATES (in thousands of bags)

YEAR	Ethi-opia	Brazil	Colum-bia	Costa Rica	Domin. Repub.	Ecuador	Guate-mala	Haiti	Mexico	Nicara-gua	Salva-cor	Vene-zuela	Angola	TOTAL
1960	566	9252	4259	271	403	327	799	64	1102	175	446	345	804	22,104
1961	679	8633	4087	369	266	202	950	76	1316	225	583	344	1031	22,464
1962	661	9094	4332	385	418	369	967	154	1408	190	847	272	1480	24.549
1963	816	9278	3952	287	368	294	1080	122	841	224	763	313	1124	23,893
1964	924	7213	3712	293	532	230	789	122	1480	170	683	262	1246	22,892
1965	1158	5744	3324	305	310	502	904	100	1160	251	714	236	1285	21,347
1966	792	6731	2710	231	353	432	1110	89	1035	135	593	271	1212	22,062
1967	1059	6069	3063	324	254	467	706	88	990	174	853	283	1481	21,312
1968	963	8318	3050	294	329	417	718	90	1293	216	579	159	1759	25,378
1969	943	5780	2480	271	326	377	825	61	1125	153	596	283	1296	20,233
1970	1071	4717	2497	375	352	600	716	60	982	128	539	253	1385	19,732
1971	1130	6536	2642	350	338	404	813	138	1286	192	645	246	1590	22,686
1972	965	6152	2711	294	401	490	689	139	1070	111	391	243	1297	20,769
1973	1062	4596	2868	284	507	435	1110	110	1641	147	1047	174	1693	21,789
1974	504	2275	3090	268	381	512	1096	114	1324	66	1111	246	2396	19,243
1975	533	3748	3400	192	336	694	874	81	1662	71	1018	182	1202	20,289

SOURCE: Commodity Yearbooks, 1974, 1975, and 1976 (Commodity Research Bureau, Inc.: New York, N.Y.)

APPENDIX M

TOTAL COFFEE IMPORTS
INTO THE U.S.
(in thousands of tons)

YEAR	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	TOTAL
1961	33.3	31.0	32.5	39.3	39.8	43.2	48.4	30.5	16.6	10.3	6.2	11.1	344.2
1962	30.3	22.3	25.1	35.7	28.9	37.0	39.0	22.9	8.0	10.0	11.6	14.7	285.5
1963	16.6	46.8	29.3	39.5	21.5	23.4	14.4	16.7	19.3	19.3	13.8	21.0	281.6
1964	26.7	23.9	29.4	16.8	17.6	22.2	18.4	26.8	19.7	23.9	18.6	24.4	268.4
1965	8.0	22.1	25.4	25.5	40.2	37.7	26.0	36.2	48.5	32.4	27.2	25.2	354.4
1966	41.9	57.7	46.6	29.2	33.5	14.0	20.3	9.6	10.3	13.4	15.9	26.8	319.3
1967	49.8	50.9	39.8	21.6	10.8	18.9	16.5	9.2	8.9	12.4	17.8	26.1	282.2
1968	35.8	24.5	7.7	25.7	27.9	21.8	18.6	15.3	12.9	10.8	10.0	17.4	228.2
1969	2.0	23.4	27.2	14.3	20.7	15.4	25.5	21.6	6.3	12.5	18.8	30.7	218.4
1970	36.8	23.9	22.6	24.0	21.9	14.9	24.1	21.3	23.3	26.7	14.5	25.4	279.2
1971	45.0	22.8	25.2	28.2	17.8	25.8	28.7	23.2	24.6	13.8	10.9	50.3	315.8
1972	39.8	39.3	27.6	26.8	24.4	25.6	17.5	13.4	6.8	13.1	10.0	36.1	282.2
1973	38.1	34.4	27.7	29.0	29.3	17.0	15.8	9.9	5.4	2.8	11.1	27.6	248.0
1974	28.9	21.1	31.7	21.9	28.0	23.7	12.8	10.4	4.8	8.1	11.1	18.7	221.1
1975	20.5	17.3	21.7	17.9	17.4	18.7	16.6	12.5	17.4	21.5	18.6	33.0	233.0

SOURCE: <u>Commodity Yearbooks</u>, 1974, 1975, and 1976 (Commodity Research Bureau, Inc., New York, N.Y.)

APPENDIX N

WORLD COCOA PRODUCTION
(in thousands of metric tons)

CROP-YEAR (a)	Brazil	Colom-bia	Domin. Repub.	Equa-dor	Equa-torial Guinea	Camer-oon	Ghana	Ivory Coast	Nigeria	Sao Tome and Principe	Trinidad and Tobago	Venez-uela	Asia and Oceania	WORLD TOTAL
1960-61	122.0	14.3	35.8	41.6	25.3	71.5	439.2	93.6	198.4	10.5	7.0	12.1	19.1	1164
1961-62	116.0	15.0	34.2	40.0	26.0	73.7	416.0	81.0	193.9	9.6	6.5	12.4	22.3	1123
1962-63	111.0	13.5	39.9	42.0	31.5	76.4	428.4	103.0	178.7	10.3	6.4	14.6	25.6	1162
1963-64	122.7	14.7	40.9	36.0	33.4	87.9	445.2	98.2	219.5	8.5	5.2	22.3	29.1	1238
1964-65	118.6	16.0	26.1	47.0	34.7	90.0	563.3	147.5	298.3	8.6	5.4	21.9	32.6	1490
1965-66	171.0	17.0	28.7	36.0	35.0	77.2	415.6	113.3	184.6	9.7	5.3	22.9	27.7	1219
1966-67	173.3	17.0	28.5	53.0	38.5	84.2	381.4	149.7	267.3	10.0	4.7	21.0	31.5	1336
1967-68	144.7	18.0	30.0	70.0	34.0	91.5	421.6	146.8	238.6	11.0	6.3	24.7	34.8	1352
1968-69	166.2	18.5	21.0	53.0	37.0	103.8	338.9	142.7	195.0	9.8	4.7	19.3	39.6	1236
1969-70	201.6	15.3	43.0	55.0	25.0	108.0	414.3	180.3	225.0	9.7	5.6	18.3	35.8	1423
1970-71	182.4	16.6	26.0	65.0	30.0	112.0	392.0	176.3	323.0	10.4	4.1	18.9	42.3	1494
1971-72	165.4	18.0	41.5	58.0	25.0	123.0	464.0	224.0	265.0	10.0	4.0	19.0	44.1	1569
1972-73	158.7	19.5	28.0	43.0	15.0	100.0	420.0	181.0	264.0	10.0	4.5	16.6	35.6	1389
1973-74	200.0	21.0	39.0	44.0	15.0	115.0	380.0	200.0	245.0	10.0	4.5	19.0	42.1	1461
1974-75 (b)	266.6	24.0	30.0	77.0	12.0	118.0	375.0	235.0	210.0	7.0	4.0	19.0	53.7	1525
1975-76 (c)	237	26	35	70	14	118	412	220	245	10	4	21	58	1568

SOURCE: Commodity Yearbooks, 1974, 1975, and 1976 (Commodity Research Bureau, Inc., New York, N.Y.)

(a) Crop years are for the 12 months October 1 to Sept. 30.
(b) Preliminary
(c) Forecast

APPENDIX O

AVERAGE SPOT PRICE OF TEA IN N.Y.
(in cents per pound)

YEAR	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	AVERAGE
1963	53.7	55.1	54.2	53.3	54.5	53.0	53.0	53.2	52.3	52.4	51.9	51.3	53.2
1964	51.2	52.7	52.1	52.3	50.7	50.8	51.1	51.3	52.8	52.9	52.0	50.9	51.8
1965	50.9	53.0	52.6	53.1	51.7	52.7	54.2	54.4	54.3	53.6	52.9	53.3	53.1
1966	53.1	51.8	51.0	49.7	48.8	47.8	48.0	46.8	45.6	44.8	45.7	45.4	48.3
1967	46.2	45.9	44.7	45.0	45.7	44.8	46.3	46.7	46.9	48.1	49.2	46.9	46.4
1968	46.6	47.1	45.3	45.7	46.0	45.6	46.1	46.2	46.4	46.8	45.6	44.7	46.0
1969	43.9	44.0	43.6	42.9	42.3	42.4	41.0	42.0	41.9	41.2	42.1	43.4	42.6
1970	43.9	44.2	44.6	44.8	45.3	45.4	45.8	47.1	47.8	47.5	45.9	47.7	45.8
1971	48.1	47.8	48.8	48.1	48.3	47.7	48.1	48.1	49.7	49.5	49.6	50.7	48.7
1972	50.3	50.8	53.0	53.5	53.5	52.1	51.0	49.1	49.6	49.5	47.8	47.6	50.7
1973	46.8	47.9	48.6	48.8	48.9	48.2	48.7	48.8	48.0	48.0	48.0	48.3	48.3
1974	49.1	50.4	58.2	62.7	62.3	64.7	63.8	64.9	64.4	65.3	66.9	71.4	62.0
1975	71.3	73.9	75.5	72.1	69.4	68.7	65.3	65.0	63.6	65.4	65.9	NA	NA

SOURCE: Commodity Yearbooks, 1974, 1975, and 1976 (Commodity Research Bureau, Inc.: New York, N.Y.)

APPENDIX P

AVERAGE SPOT PRICE OF CANE
SUGAR IN NEW YORK
(in cents per pound)

YEAR	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	AVERAGE
1961	6.39	6.32	6.25	6.25	6.46	6.48	6.39	6.06	6.06	6.19	6.29	6.40	6.30
1962	6.45	6.37	6.43	6.43	6.43	6.45	6.39	6.54	6.43	6.52	6.44	6.54	6.45
1963	7.60	6.80	8.26	8.26	11.08	8.70	7.95	6.65	7.45	9.42	9.34	8.78	8.18
1964	9.29	8.02	7.43	7.43	6.65	6.45	6.25	6.18	6.20	6.27	6.17	6.55	6.90
1965	6.85	6.79	6.59	6.59	6.73	6.72	6.73	6.77	6.82	6.82	6.80	6.75	6.75
1966	6.88	6.92	6.89	6.89	6.90	6.92	7.00	7.05	7.11	7.15	7.12	7.14	6.99
1967	7.13	7.21	7.22	7.22	7.25	7.32	7.30	7.33	7.34	7.37	7.38	7.30	7.28
1968	7.41	7.38	7.42	7.42	7.48	7.53	7.59	7.59	7.62	7.66	7.58	7.62	7.52
1969	7.67	7.69	7.80	7.80	7.82	7.74	7.50	7.75	7.83	7.89	7.79	7.73	7.75
1970	8.11	7.96	7.90	7.90	8.16	8.22	8.16	8.19	8.16	8.14	7.96	8.02	8.07
1971	8.35	8.44	8.29	8.29	8.46	8.54	8.58	8.66	8.57	8.52	8.63	8.84	8.52
1972	9.10	9.02	8.89	8.89	8.76	8.77	9.17	9.33	9.39	9.32	9.03	9.19	9.09
1973	9.38	9.14	9.65	9.65	10.06	10.25	10.25	10.75	10.97	11.15	11.10	11.34	10.29
1974	12.63	17.09	18.11	19.25	23.05	26.30	28.35	32.60	33.71	38.83	57.30	46.74	29.50
1975	40.15	36.07	28.52	26.07	19.27	15.96	19.89	21.11	17.36	15.45	15.03	14.80	22.47

SOURCE: Commodity Yearbooks, 1974, 1975, and 1976 (Commodity Research Bureau, Inc.: New York, N.Y.)

APPENDIX Q

WORLD PRODUCTION OF CANE SUGAR
(in thousands of tons)

CROP YEAR	Australia	Brazil	Cuba	Hawaii	India	Indonesia	Philippines	Puerto-Rico	U.S.A.
1960-1961	1504	3791	7459	1092	4042	745	1451	1110	630
1961-1962	1512	3934	5308	1120	3693	709	1618	1009	858
1962-1963	2000	3576	4211	1101	2979	648	1714	990	853
1963-1964	1883	3620	4400	1179	3470	725	1856	989	1184
1964-1965	2132	4152	6600	1218	4285	715	1767	897	1147
1965-1966	2187	5324	4950	1234	4514	671	1590	883	1104
1966-1967	2564	4807	6200	1191	3039	661	1718	818	1215
1967-1968	2686	4922	5500	1232	3092	716	1759	645	1457
1968-1969	3052	4804	5200	1180	4640	775	1760	483	1214
1969-1970	2440	5063	9406	1162	5523	835	2124	460	1071
1970-1971	2702	5642	6530	1286	4963	800	2270	321	1253
1971-1972	3015	5939	4837	1124	4222	750	2062	298	1206
1972-1973	3162	6909	5787	1155	5151	981	2549	300	1749
1973-1974	3230	7970	6063	1157	5512	992	2590	298	1819
1974-1975	3252	8157	6063	1144	6614	1102	2702	NA	1463
1975-1976	3252	7716	5952	1145	6063	1157	2831	NA	1661

SOURCE: Commodity Yearbooks, 1974, 1975, and 1976 (Commodity Research Bureau, Inc.: New York, N.Y.)