

SWP 71/91 THE NEW EUROPE FROM THE THIRD WORLD

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ABSTRACT

The geo-political scene of the New Europe has already begun to cause ripples across the world in terms of the way relationships are seen both within Europe and out of it. It has led to new perceptions of the way rich countries will interact with each other and the poor countries of the South.

Much Attention is given to the way the rich countries, especially how the members of the G7 perceive the third world. However, it is rare indeed to find reports on how people in the third world perceive the relationships with the west.

This paper attempts to close this gap by reporting on a focus group interview with people involved in enterprise promotion in Africa and Asia. The respondents provided an insight into their assessment of the relationships between countries such as West/West; West/South; Eastern Europe/South. The discussion also covered their perceptions of what would happen when Aid money began to flow towards Eastern Europe and the tide turned away from poor countries, especially those in Africa.

The new Europe was seen in two ways. The first was hopeful as the group felt that the East/West rivalries and "fantasies" of the various "isms" would no longer have to be played out in African countries. The new relationships between the two parts of Europe may therefore leave African countries in a better state to look after themselves. In addition, the tearing away of the Iron Curtain and the decline of socialism could provide a role model for African countries. The changes in Eastern Europe, towards the capitalist model made socialism in Africa less tenable.

The group also felt that a reduction in aid would be welcome if the so-called free trade environment was also "fair trade". However, they felt uncertain on this issue as the New Europe would create surpluses and barriers to entry on price and quality standards. The major threat perceived by the group concerned competition from Eastern Europe on the capital markets and for emergency aid.

Finally it was suggested that Japan may take the opportunity of expanding their sphere of influence while The New Europe was sorting itself out.

INTRODUCTION

The dramatic changes in Eastern Europe, especially in Russia, the unification of Germany and the crumbling of the old Socialist regimes has meant that the Western European allies have to re-examine their position vis a vis their neighbours.

One of the manifestations of these changes is that the flow of aid may be directed to Eastern Europe. The terms of trade are likely to be improved in favour of the neighbours and debt relief will be given increasingly to Eastern Europe to encourage their adoption of market economies and thus become a more active part of a larger Europe.

Since the overall capacity of the prime donor countries is finite (especially during a recessionary period), one of the outcomes of a focus on neighbours is that poorer developing countries will have less access to aid, the terms of trade will not improve and they will have to compete for lines of credit from a relatively stronger group of countries.

This re-alignment of the relationships has an impact on the relations between the New Europeans and the "third world". The relationships can be examined from a number of perspectives, including aid, trade and the potentially beneficial impact of the change in the East - West conflict of "isms".

There is considerable literature on the effectiveness of aid and the problems with it (Bauer, 1981). However, there are no references to the issue from the perspective of people from developing countries and no particular reference to the ethical issues posed by the apparent inconsistencies in the relationships. This exploratory study hopes to shed some light on this subject.

AID

There are three major forms of aid which can be considered.

- a. The first is development aid, which tends to be long term grant assistance in the form of either bilateral or multilateral funds, technology and investments in infrastructure.
- b. The second form of aid takes the form of long term soft loans, with extended periods for repayment. These loans tend to be "tied" to the countries from which they are given and the recipient countries are expected to buy technology from the donor (or lending) countries. Shorter term loans are also made and the issue of third world debt is high on the agenda with some countries, especially in South America.
- c. The third form of aid is emergency relief at the time of disasters and famines, such as those in Ethiopia and the winter food shortages in Russia.

In many cases the purpose of aid can be questioned. In some cases aid is tied to achieving ideological changes. For example in a debate of Development Aid in the House of Commons in the UK (Reuters, 15.12.1990), Mr. George Gardiner said:

"Aid should be tied closely to political and economic reform. All sub-Saharan states must be told that unless pluralistic political systems are instituted and the market system is encouraged, they can expect to see development aid tailing off".

Mrs. Lynda Chalker, the Overseas Development Minister concurred with this view.

The situation in monetary terms is that Official Development Assistance (ODA) fell from \$ 48.1 billion in 1988 to \$ 46.5 billion in 1989 from the leading countries in the OECD (members of the Development Assistance Committee - DAC). Allowing for changes in prices and exchange rates vis a vis the dollar, this is a 2% decrease in real terms. (The OECD Observer 165 p25).

The net total resource flows to developing countries from DAC and non-DAC countries and from multilateral agencies reached as estimated \$109 billion in 1989. This was a \$ 5 billion increase on the previous year and reflects increases from private sources. For example, the grants by private voluntary organisations flowing into developing countries amounted to \$ 4.2 billion in 1989.

Further, in 1989, due to increased interest rates, the world debt size increased. However, some \$ 2 billion interest arrears was capitalised by official creditors. The total forgiveness of debt to poorer countries by DAC countries was \$ 5 billion.

Barber Conable, President of the World Bank has welcomed the application of Russia and has also said that Eastern Europe will form the main target for Bank's activity. Two years ago some \$100 million was extended to this region. This sum has increased to \$ 3 billion and is expected to grow still more as Bulgaria and Rumania have also applied to the Bank.

The EEC's development Bank is proposing to lend upto \$ 1 billion to Eastern Europe. However, this has been temporarily stalled as Spain said it would permit lending only if the EC's Bank also lends to Latin America !

These figures are not, of course, the entire story. There are questions of the effectiveness of the aid, the fact that much of it is tied to particular sources (Hancock,

1991) and that large proportions return as deposits in western banks (Financial Times, 22.5.1991, p5). It is not the scope of this paper to examine these issues, but it is worth stating that the subject is considerably more complex

TRADE

In the main, policy makers in most countries prefer free trade between countries. This is an espoused stand by policy makers and their advisers. However, as witnessed by the lack of progress in the Uruguay round of the General Agreement on Tariffs and Trade (GATT) there is a lack of conviction by the richer countries in fully implementing the principles of free trade, which also includes "fair trade".

If the Uruguay round was to be successful, it would offer developing countries an opportunity to improve their conditions through the effects of world trade liberalisation. However, the current trade policies in industrial countries affects developing countries in a number of ways:

- a. The tariffs between industrial countries is on average 4% compared to those faced by developing countries which is 6%, for their exports to the industrial countries. Further, the tariffs on processed products is normally higher than on raw materials. This leaves the developing countries with few options to add value in their own countries. Third, there has been a rapid growth of nontariff barriers particularly towards products from developing countries.
- b. For manufactures as a whole, the incidence of nontariff barriers in industrial countries is estimated to be 50% higher for the exports of developing countries than those of industrial countries, (Finger and Olechowski, 1986). These are particularly high on agriculture and textiles, both of which are important to developing countries and sectors in which they have comparative advantage.

- c. It has been estimated that a cut in barriers could raise the level of GDP by 3 % in developing countries. This is equivalent to twice the amount currently allocated to ODA by the industrial countries, (Finger and Messerlin, 1989).

- d. An area of particular relevance is the protection of temperate agriculture by the industrial countries. Farm support costs the tax-payer and consumer around \$ 200 billion per year (equivalent to 40% of the value of the output). If this support was removed, international prices would rise, thus encouraging new suppliers from the developing countries, (IMF, 1990) leading to long term price stability and potential foreign exchange earnings for the developing countries in the order of \$ 52 billion.

Recent calls by the industrial countries for "market-oriented" and outward looking policies by the new regimes of Eastern Europe and other developing countries are made with a view of gaining access to new markets. At present there are no signs that Europe will itself impose "market-oriented" policies in agriculture or textiles.

THE BREAKDOWN OF THE "ISMS"

The long standing polarisation of the East - West conflict of capitalism and communism has been played out on a global field for many decades. Perhaps the most recent example where the breakdown of this polarisation has been partially beneficial is in Ethiopia. The Soviet Union lost interest in Ethiopia about two years ago leading to the eventual downfall of President Mengitsu. Similarly and even more recently, Russia is leaving Cuba and one awaits the fate of Castro.

The closest view for member countries of the EEC is that of all the old "Eastern bloc" countries. From the Baltic to the Balkans, the countries are changing from planned

economies to market economies. There are individual problems, with the pace of change which is desired by the people and that which the local system can cope with. However, the common feature is the complete shift in paradigm which has occurred in so short a space of time.

One of the questions which is posed by the loss of a bogey man for the west is who will replace the role? Will the west - east polarisation be replaced by a north south tension. Will Japan become the new focus of attention? Perhaps the 1990s will be a decade in which peace breaks out. On the other hand perhaps this is a naive view!

The issues raised by the changes in Europe and their impact on developing countries in Africa are of interest to this paper. In particular, the questions which are posed by the emergent changes are set out below as Research Objectives.

RESEARCH OBJECTIVES

There are three core issues for exploration. The first concerns how people from the third world construe the relationships between the rich and poor countries. Secondly, the impact on developing countries if aid was diverted towards Eastern Europe. Finally, a key area which could be addressed by the EEC in its relationships with the third world.

RESEARCH METHOD

A focus group interview was held with 7 participants from developing countries. All the participants were from private voluntary organisations and worked closely with rural communities, helping to develop micro-enterprises. The respondents were from Fiji, Bangladesh, Zimbabwe, Kenya, Zaire and Sudan.

In order to narrow the discussion and to understand the mental maps of the respondents, they were asked to define developing countries, rich countries and Eastern European countries. The following were named by the respondents:

Western Europe	Eastern Europe	Poor Countries
Switzerland	Hungary	Ethiopia
Holland	Russia	Somalia
Germany	East Germany	Sudan
UK	Poland	Bangladesh
France	Czechoslovakia	Mozambique
	Yugoslavia	Zimbabwe
	Romania	Western Samoa
		Cook Island
		Kiribati

The findings of the focus group interview were analysed through content analysis, with the help of a search for patterns. These are set out in line with the three research objectives.

FINDINGS

How relationships between countries is construed.

The respondents described their perceptions of how people in the rich countries saw themselves and their relationships with Eastern Europe and the developing countries. They also shared their perceptions on how the Eastern European countries saw themselves and their relations with developing countries.

1. UK thinks it has and continues to have a dominant position. Germany projects a position of economic muscle and France believes it is independent, especially as it is not controlled by influences from the USA.
2. All the Western European Countries are more open and people are much more involved in the decision process of the democratic Countries.
3. The relationships between Western European and Eastern European Countries were seen primarily as a conflict of ideology; between the democratic capitalist systems of the West and socialist systems of the East. The Western European Countries also see that the iron curtain has been held up and therefore the socialist systems are now being discredited, particularly on a world wide basis.
4. Western European countries see poor countries in terms of past wrongs and have to provide aid to ease their conscience. However, this aid really benefits the donor countries as much, if not more than the so called beneficiary countries.
5. It was also interesting to see that none of the East European Countries were too bothered when Rumania was falling apart except that the Western European Countries were cheering and chanting and selling the changes to Africa and holding up at the collapse of Rumanian socialism as an example to Africa.
6. The Socialist Countries were closed to each other and the flow of information was so tight in the past that the core ideologies were kept in place. However, the influence of the West has begun to affect the East, so the Eastern European Countries are looking for economic strength whilst still hanging on to some of their core ideology.

7. There was also a very strong view that too many of the African Countries were unwilling to unite behind either a trading block or a trading currency with the result that they were left weak and dependent on the rich Countries.

What would happen if aid were directed away from developing countries towards Eastern Europe.

The question of aid and trade are inseparable, so the responses which were provided have been grouped together as effects of aid and the issue of trade.

8. Aid does not teach the people to grow up, therefore it is better, in the long term for a reduction in the amount of aid. For example, during sanctions in South Africa and Zimbabwe, many of the people within the countries were helped as they had to survive and so they got on with production activity. The contrasting examples were Kenya and Tanzania which are still queueing for aid even after so many years of independence. One of the reasons given was that the overall strategy of previous Colonial Countries, which were either willing to stay for a long time in a country and thus built up an infrastructure or thought some Countries were not worth such exploitation and therefore did not put in an infrastructure of any value.
9. One of the likely objectives of reduced European aid was that it would be replaced by aid from Japan, which is now becoming an increasingly important player in the world geo-political scene. For example, it was felt that in many Asia Pacific Countries Japanese Aid was trying to conquer the countries which warfare had failed to do in the past. It was also noted that a lot of money from Japan was beginning to flow into Countries such as South Africa. In fact Japan is currently the largest single donor of ODA at \$9 billion, higher than USA at \$7.2 billion.

10. The impact of trade on the Poor Countries is severe. As the European block begins to unite it was felt that the demands for higher quality would be improving and increasing which meant that African Countries would not be able to compete effectively, thus having to confront a nontariff barrier.
11. The high quality market place of Europe and the over supply of production within Europe would cause yet another imbalance in the trade with Africa which would indeed ultimately serve to reinforce dependency.
12. In the context of trade, many of the products were primary exports from these poor countries and were vulnerable to substitutes and would therefore continue to leave these countries at a disadvantage.
13. Many of the African countries were so different and were unable to unite either around a currency or through unstable politics so that the lack of cohesion and the lack of power meant that the trade vulnerability persisted in this region.
14. The West/East conflict between capitalism and socialism, of the past, was largely played out in Africa and now if these regions were becoming more friendly there should be an improvement in Africa through a greater period of peace. This would help to give African Countries much more time to build up their own future.
15. However there is a contrasting view that the East and West would truly be opening up and in fact the tensions could get worse through the ebb and flow of goods and labour, depending on the economic circumstances of the two sets of countries. If this scenario was played out then the situation for Africa could not possibly improve.

Finally on the third objective of what key issue the EEC could address in its relationship with the third world, the respondents put forward the following:

16. Improve the trade terms which are currently very unfair and this would lead to the reduction of Aid which is necessary to develop long term self sustainability.
17. The Europeans appear to be very insular for example with cross subsidies which are killing off competition from developing countries. It is time to practise what is preached.

CONCLUSIONS

Clearly the perception of the rich countries by people from developing countries raises many ethical questions. In the first instance there is the question of the apparent double standards when free trade and market driven economies are promoted.

Indeed, the International Monetary Fund and the World Bank are increasing their pressure on developing countries to adopt the market economy and abandon central planning. This pressure is being applied through the provision or the withholding of assistance. (The Guardian, 9.5.91, p13) The large multilateral agencies are, in effect, wielding the big ideological stick.

Many of the poor countries do not have the infrastructure to cope with the new demands of the rich, in terms of full adoption of the Structural Adjustments Programmes (SAPs). For example, there are demands for the privatisation of many State owned enterprises. However, in many countries there are no stock markets and the general public are unlikely to either have the funds or the trust, in former loss makers, to buy shares. These infrastructure shortages need to be acknowledged before thrusting new ideologies on developing countries.

Trade terms are unfair towards developing countries. This raises the issue of self interest and the power of the lobby groups in Europe, particularly in agriculture, where so much of the food price is subsidised, by the very political systems which preach market orientation outside their own shores. Policies which are beneficial to the wider society should, perhaps, take priority over local lobby groups.

In addition, the terms of trade between poor countries is not any better as they seem unable to form trading blocks. This question relates to the relative youth of many of the countries in Africa. The boundaries were drawn by Europeans rather than by Africans.

There are many languages and currencies and finding a path through such complexity in political systems which are relatively inexperienced can pose problems. In addition there are diverse cultural constraints to the formation of trading blocks which might be mutually beneficial.

There is some anxiety that as Europe is enlarged, there will be a raising of quality standards and possibly an oversupply of locally produced goods, thus shutting the markets for countries outside this block. The lack of future access will leave the poor countries vulnerable and dependent.

A number of countries in Africa have demonstrated their ability to stand on their own feet (relative to other countries) and to some extent this has been achieved through political and economic isolation. However, it must be noted that some of these countries have expatriate populations who have easier access to European markets.

One of the more positive constructs which emerged was that there might be political stability in the region, since the West and East will no longer have to play out their "isms" in Africa. With this political stability, it may be possible for many of the countries to begin a process of economic activity.

Finally, in a parting message for the EEC, respondents said that aid was not being demanded, but there was an urgent need to be fair and to ensure that this fairness applied beyond the boundaries of Europe.

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