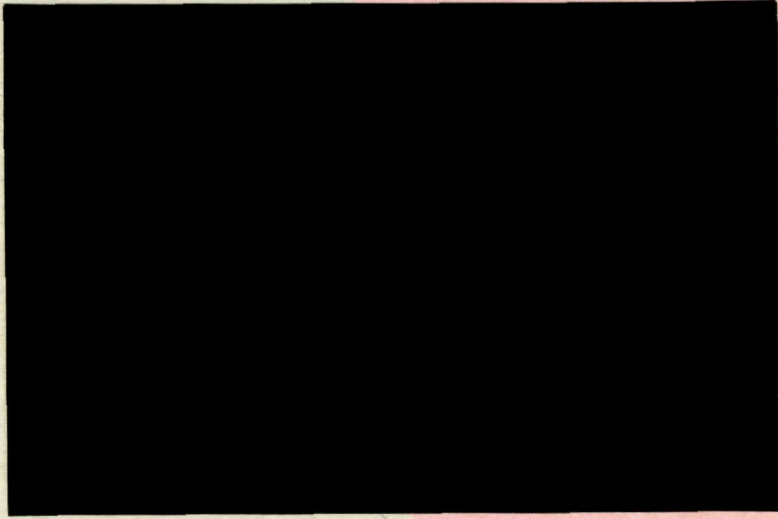


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Stichting Onderzoek Multinationale Ondernemingen
Centre for Research on Multinational Corporations



DEVELOPMENT AID AND ECONOMIC RELATIONS
BETWEEN EUROPE AND AFRICA

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Development aid and economic relations between Europe and Africa.

In order to get a proper understanding of the European development aid to the developing countries, which include the African countries, we have to analyse this phenomenon of development aid on the level of international economic relations as well as the specific Dutch situation. Let us start with the second part, that means the development aid in Holland. It is interesting to know for example that during the last twenty or thirty years the discussions about development aid were always important items of our national politics. At this moment while there are serious cuts in the expenditures of almost all the Dutch departments, an exception is made for the department of international development aid, as well as for the ministry of defense. In order to understand these items, we have to look at the background of the Dutch development aid. In my opinion it seems to be useful to make a distinction between two main options concerning the development aid.

One option, I like to characterise as an act of humanity. The main aim of this option is to reach the poorest and economically most depressed people in order to improve their position. Over the last years the Dutch policy, and probably the Dutch society were strongly involved in ideological discussions about themes like:

how to reach the poorest people as a 'target group' of the development aid;
in which countries, related to their policy concerning the most depressed people and regions, the development aid should be concentrated; how the development aid can stimulate the small and middle scale projects in order to make the directly concerned people participate in the development;
how the position of women can be improved, especially because they are most involved in the agricultural production in Africa.

About all these questions, a lot of reports and studies are made by the state department and by different institutions like universities, private consultants, churches, etc. Probably you will be astonished realising that detailed information on all these themes is available in Holland and in Europe on a larger scale than it is in most of the African countries. Nevertheless, this does not mean at all that this humanistic approach of international cooperation is transformed into a concrete policy towards the developing countries. It is little more than an ideological discussion; it works as a blanket of fog, behind which the reality is hidden.

The second option of the development aid is in opposition to the first one, much more related to the execution of the aid in day to day reality. In this option the development aid is, in essence, a way of financing the export and investments of Dutch companies into developing countries. Development aid is an

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instrument used in international competition, in which countries battle with each other in order to deliver goods and find new markets. In order to understand this we have to analyse the Dutch and European position in relation to the developing countries and to Africa. Later in this introduction I will discuss this more extensively in terms of trade and investments.

First I ask your attention for the consequences of the distinction between the two options. It means that the term 'development aid' and also the executed policy is not clear in itself. We have to look at the different interest groups, who form a permanent lobby in order to realise their specific interests. We can distinguish among three lobbies, that means the bureaucratic, commercial and idealistically-based lobbies.

Concerning the first you should realize that in addition to the Ministry of Development Aid, at least three other ministries are rather strongly involved in development aid. These are the Ministry of Economic Affairs, whose main task is to stimulate Dutch exports. Secondly there is the Ministry of Agriculture and Fishing, which is a strong ministry with a lot of potential 'export knowledge' about agricultural technology. Thirdly there is the Ministry of Transport, which has a unique interest in dredging, land-reclamation, etc. All these ministries represent Dutch interests and put pressure on the department of Development Aid, which is in itself a part of the Ministry of Foreign Affairs.

Behind these bureaucratic giants are the commercial

interest groups. A lot of companies are involved in development aid. First are companies which are in a weak economic position. Think of the Dutch fertilizer industry, kept alive by their exports to developing countries, which is partly financed by the Ministry of Development Aid. Think also of the dredging companies, which are searching for new markets since the Dutch delta constructions are finished now. This was an enormous project to secure a substantial part of the Netherlands from the sea. There are also companies which are strong enough to find their own way on a commercial basis, but they use the government organisation to take the main part of the risk in their activities in developing countries. They reduce the commercial risk of developing a new product or entering a new market.

Then there are idealistically-based lobbies at the ministry. Dutch society is 'famous' because of its denominational segregation. This means, as it relates to development aid, that there are Catholic, Protestant and 'neutral' organisations. So if we talk about private institutions on the Dutch side involved in the development process then we have to think about the private companies as well as churches. Although their projects can be financed by the the ministry , they are rather autonomous in what they do in the third world.

With this information as a background we can give a short discription of the last three decades of Dutch

development aid. In the sixties, Dutch development aid was a purely commercial business. An idealistic option existed outside the government organisation within the churches, which were involved in their missions. At the end of the sixties the Department of Development Aid, within the Ministry of Foreign Affairs, was established. In the seventies the Dutch Social Party was in government and they introduced a strong new policy aimed at the poorest people in the third world. In the seventies and in the eighties, the influence of this new policy is remarkable. A lot of serious but also fashionable items entered in political discussions. I am a little cynical about the effects of these discussions. Remember the 'blanket of fog'. At the end of the seventies and during the eighties the Christian and Liberal Parties again came to power. In this period, the targets of development aid have been watered down. Improving the quality of aid is the main issue, but the privatization and the no-nonsense approach enlarge the possibilities of the private institutions. Especially on the ideological level the private institutions gained ground in the last years. Now also in the official goals of the Dutch policy, Dutch interest is explicitly mentioned.

An important question still remains: What are the European and Dutch interests in Africa ?

Let 's first look at the international trade relations. If we make the distinction among primary commodities, manufactured goods and services, we should realize that the trade between Africa and Europe mainly exists in

primary goods. We can notice at least four structural problems related to this trade in primary commodities. First I would like to make the statement that trade is not, in the first place, something that happens between countries, or between governments. International trade is a subject related to the main executers of that trade: the multinational companies. Many of the companies found their sources in the colonial period. In this period the economy of most African countries was restructured into a supply economy of minerals and agricultural products as raw materials for the industrialisation of the developed economies. Many multinationals found their sources in that period in trading primary products, and they still do. Unilever is a well known example of a Dutch/British company. In the post-war period this trade has grown rapidly, and there has also been an increased concentration within the sector. During the fifties and sixties all primary commodity sectors witnessed the disappearance of small and medium-sized companies. Through mergers and takeovers and by bankruptcies the concentration came in 1980 to a point in which roughly 70-80 per cent of the global primary commodity trade was accounted for by multinational companies. Scheme 1 gives a detailed insight into the share of the fifteen largest transnationals in each commodity market. In most cases only three to six companies account for the bulk of the market. It can be said that the bulk of the total international commodity trade is in the hands of about fifty companies. As a illustration of the concentration

in the market: the cocoa trade is dominated by six companies; the trade in leaf tobacco is almost 90 per cent controlled by six multinationals. These companies can control the whole trade because of their position in the chain from raw material to final product. Many are integrated backward into plantations and forward into processing. Concerning the cocoa market for example Holland is the largest exporter of processed cocoa products, while Amsterdam is the biggest cocoa port in the world. The suppliers of cocoa in Africa are dependent on this few companies.

A second problem related to the trade in primary good is the mono-culture in many developing countries, and the strong dependence on the export of primary goods. Scheme 2 shows the dependence. In spite of the policy of most of the third world countries to decrease raw material dependency and to increase their own industrialisation, the following picture is the reality: 39 third world countries, of which 20 are African, are dependent on raw materials (excluding oil) for more than 90 % of their exports. 93 countries are dependent on raw materials for more than half of their exports.

Then there is a third structural problem; the terms of trade. The terms of trade have deteriorated over a long period (see scheme 3). The prices of the raw materials are unstable, low, and have sharply decreased in the recent years. Compared with the priceincrease of manufactured goods and services, it means that the terms of trade became worse and worse. Scheme 4 shows the dramatic fall in exportprices of the Sub-Saharan

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countries during the last ten years.

A fourth problem, which will become more important in the coming years is the rise of new production techniques concerning primary commodities. Research is done by multinationals in biotechnology, and new products lead to a rise in productivity, lower commodity prices and extreme flexibility for the companies. There is a continuing process of substitution of products by de- and recomposing them: for example vegetable oils instead of cocoa butter or dairy-products, corn sirup sugar instead of cane and beet sugar. The choice of substitutes is made by the multinationals.

As a consequence of these structural problems, the balance of payments of most African countries is under strong pressure. That means always a shortage of foreign currency to pay the necessary imports. Especially during the last years, this problem became more acute because of the fall of oil prices and the collapse in primary commodity prices, with the consequence of a sharp deterioration of the terms of trade.

If we look at the trade between Africa and Holland we notice the following points:

First compared with Holland's total tradefigures, the trade between Holland and Africa is limited, which means only a few percent of the total trade.

Second, apart from oil the main imports are agricultural products (cacao, oilseeds and cotton) ,

but it is interesting that the main exports are also agricultural and food products (dairy products, animals and foods). These agricultural exports from Holland to Africa are structurally increasing. It is curious that an industrialised country like Holland is an exporter of agricultural products to Africa, which has its base in a completely agricultural economy. This is one of the effects of developments in agricultural production, caused by the knowledge of biotechnology, which is in the hand of a few multinationals. The African peasants are highly dependent on these developments.

Third, there is a decrease in trade between Africa and Holland, as well as a decrease in investments by Dutch companies in Africa. The trade from Africa to Holland decreased from fl. 12 billion in 1984 to fl. 5 billion in 1988.

Also this has to do with the collapse of prices and the increased debt situation of the African countries. As a percentage of the total export, the debts in all African countries increased from around 100 percent in 1980 to more than 300 percent in 1985. (see scheme 5 and 6)

This increasing debt position is

one of the main items in international discussions at the moment. Africa takes a particular position in the sense that because of the above mentioned problems many of the African countries are becoming less interesting for the multinational companies. To show this, we can look at the decreasing trade and decrease in direct investments in Africa from abroad.

Let us look in more detail at the direct investments in Africa. The flow of investments was concentrated in only a few countries, which were oil exporters. During the period 1981-1985, Algeria, Cameroon, Egypt, Nigeria and Tunisia accounted for 90 per cent of the foreign investments in Africa. Because of the arguments I discussed before, during the last few years, the foreign companies in Africa, have not only stopped investing new money, but they have also pulled out existing investments. If we look at the Dutch companies, they represent a investmentvalue of 2,5 billion guilders in 1984, which decreased to 1,5 billion guilders in 1986. This is a sharp pull-back, which took place especially in the oil and construction industries. (see Scheme 7). We recognize this same trend if we look at the yearly flows of private capital from Holland to Africa. Since 1984, as Scheme 8 shows, the private flow of capital was negative, even if we do not count the payments for technology, management and dividend.

Instead of private direct investments and commercially financed trade, the companies are sustained by the support of the governments. Most of the investments, and an important part of the trade with Africa is financed by goverments, and that is what is called development aid.

Finally and concluding we can take a look at scheme 9, wich gives a overview of some of the elements I discussed till now. We see the deterioration of the structural economic position of the African countries.

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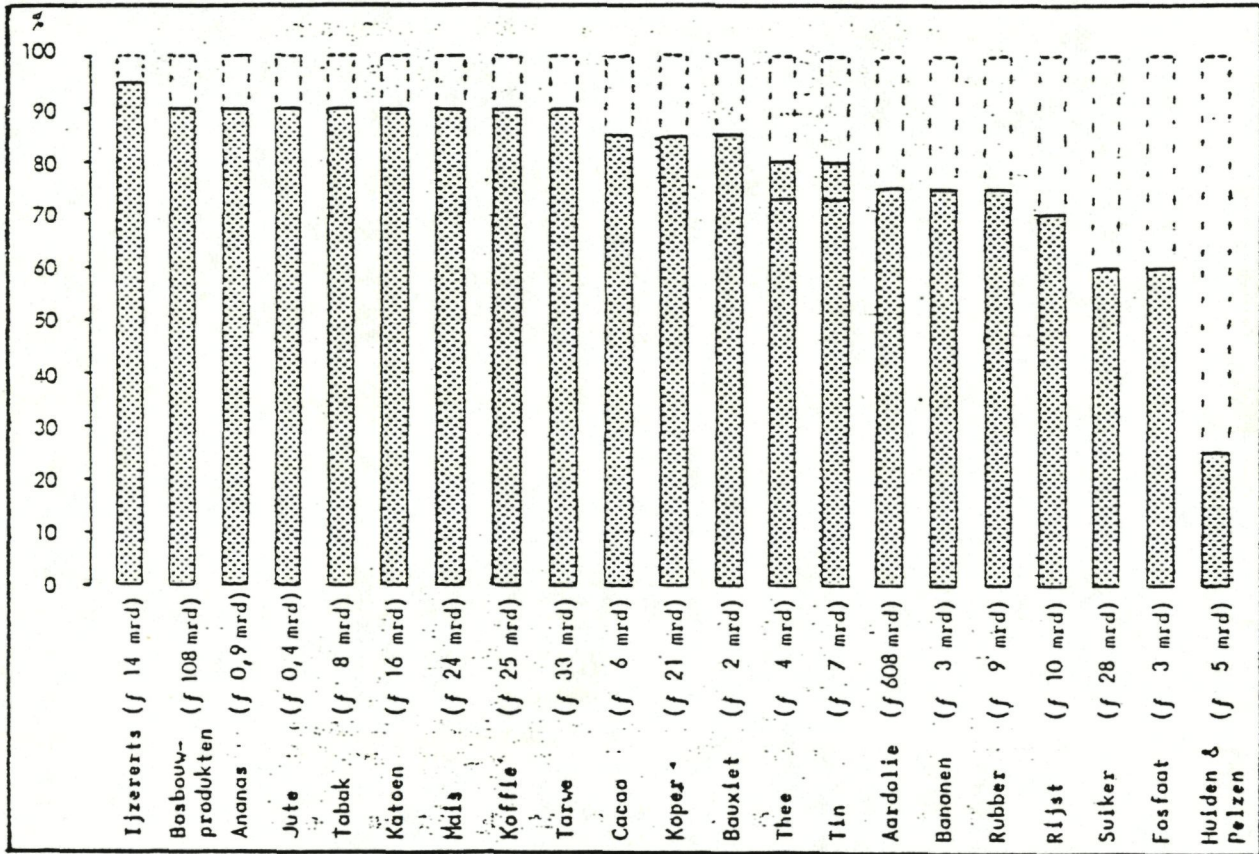
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The African economies are in imbalance because of the international dependency. Does the development aid better this position? Clearly not. It keeps the companies in the race, while it does not create conditions for an independent economic development.

SCHEME 1

SHARE IN DIFFERENT COMMODITY MARKETS,
BY THE 15 LARGEST TRANSNATIONALS IN EACH MARKET



Bron: Unctad Review, Geneve, Winter 1982.

SCHEME 1a

Corporate control of global commodity trade, 1980

Commodity	Total exports (\$ million)	Percentage marketed by 15 largest transnationals ^a
Food		
Wheat	16 556	85-90
Sugar	14 367	60
Coffee	12 585	85-90
Corn	11 852	85-90
Rice	4 978	70
Cocoa	3 004	85
Tea	1 905	80
Bananas	1 260	70-75
Pineapples	440 ^b	90
Agricultural raw materials		
Forest products	54 477	90
Cotton	7 886	85-90
Natural rubber	4 393	70-75
Tobacco	3 859	85-90
Hides and skins	2 743	25
Jute	203	85-90
Ores, minerals, and metals		
Crude petroleum	306 000	75
Copper	10 650	80-85
Iron ore	6 930	90-95
Tin	3 588	75-80
Phosphates	1 585	50-60
Bauxite	991	80-85

Source: UNCTAD secretariat estimates, based on extensive research and interviews with traders and marketing specialists. The figures represent orders of magnitude only.

^a In most cases, only 3 to 6 transnational traders account for the bulk of the market.

^b Four-fifths consists of canned pineapples and one-fifth of fresh pineapples.

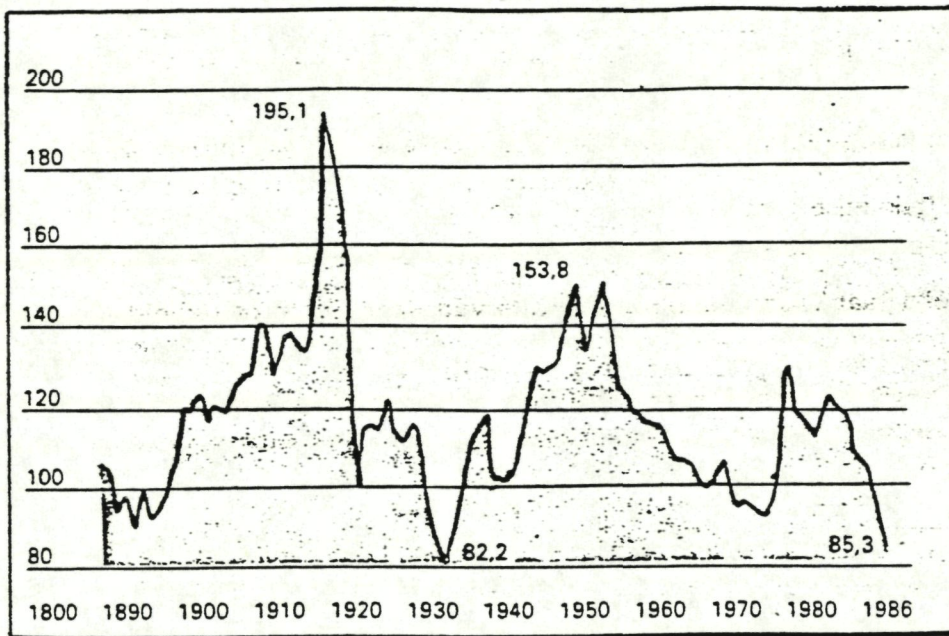
SCHEME 2

DEPENDENCY OF THIRD WORLD COUNTRIES
ON EXPORT OF RAW MATERIALS 1981-1983

COUNTRY	SHARE RAW MATERIALS IN TOTAL EXPORT	MOST IMPORTANT RAW MATERIALS
Land (Gemiddeld inkomen 1984)	Grondstoffen- aandeel (%)	Belangrijkste Grondstoffen
Angola	99 %	(aardolie; koffie)
Burundi (f 770)	99 %	(koffie; thee)
Zaire (f 546)	99 %	(koper; koffie)
Oeganda	98 %	(koffie)
Volksrepubliek Kongo (f 3275)	97 %	(aardolie)
Zambia (f 1284)	97 %	(koper; zink)
Liberia (f 1509)	95 %	(ijzererts; rubber; hout)
Rwanda (f 931)	95 %	(koffie; tin; thee)
Nigeria (f 2440)	93 %	(aardolie)
Malawi (f 546)	92 %	(tabak; vlees; thee)
Cuba	90 %	(rietsuiker; nikkel)
Iran	87 %	(aardolie)
Birma (f 610)	81 %	(rijst; hout; tin)
Mexico (f 6677)	80 %	(aardolie; koffie)
Guyana (f 1830)	77 %	(rietsuiker; bauxiet)
Togo (f 803)	75 %	(cacao; koffie; katoen)
Honduras (f 2247)	72 %	(bananen; koffie)
Ethiopië (f 353)	72 %	(katoen; huiden)
Nicaragua (f 2761)	74 %	(koffie; katoen)
Egypte (f 2311)	71 %	(aardolie; katoen)
Ecuador (f 3692)	69 %	(aardolie; bananen)
Venezuela (f 10947)	69 %	(aardolie)
Maleisië (f 6356)	69 %	(aardolie; rubber; palmolie)
Ivoorkust (f 1958)	67 %	(cacao; koffie; hout)
Tsjaad	65 %	(katoen; huiden)
Costa Rica (f 3820)	61 %	(bananen; koffie)
Chili (f 5458)	60 %	(koper; vismeel; ijzererts)
Colombia (f 4462)	60 %	(koffie; bananen)
Tanzania (f 674)	60 %	(koffie; katoen; tabak)
Indonesië (f 1734)	59 %	(aardolie; rubber; hout)
Dominicaanse Rep. (f 3114)	58 %	(rietsuiker; koffie; cacao)
Mauretanië (f 1445)	57 %	(ijzererts; vismeel)
Burkina Fasso (f 514)	52 %	(katoen; huiden)
Guatemala (f 3724)	51 %	(koffie; katoen; suiker)
Tunesië (f 4077)	50 %	(aardolie; fosfaaterts)

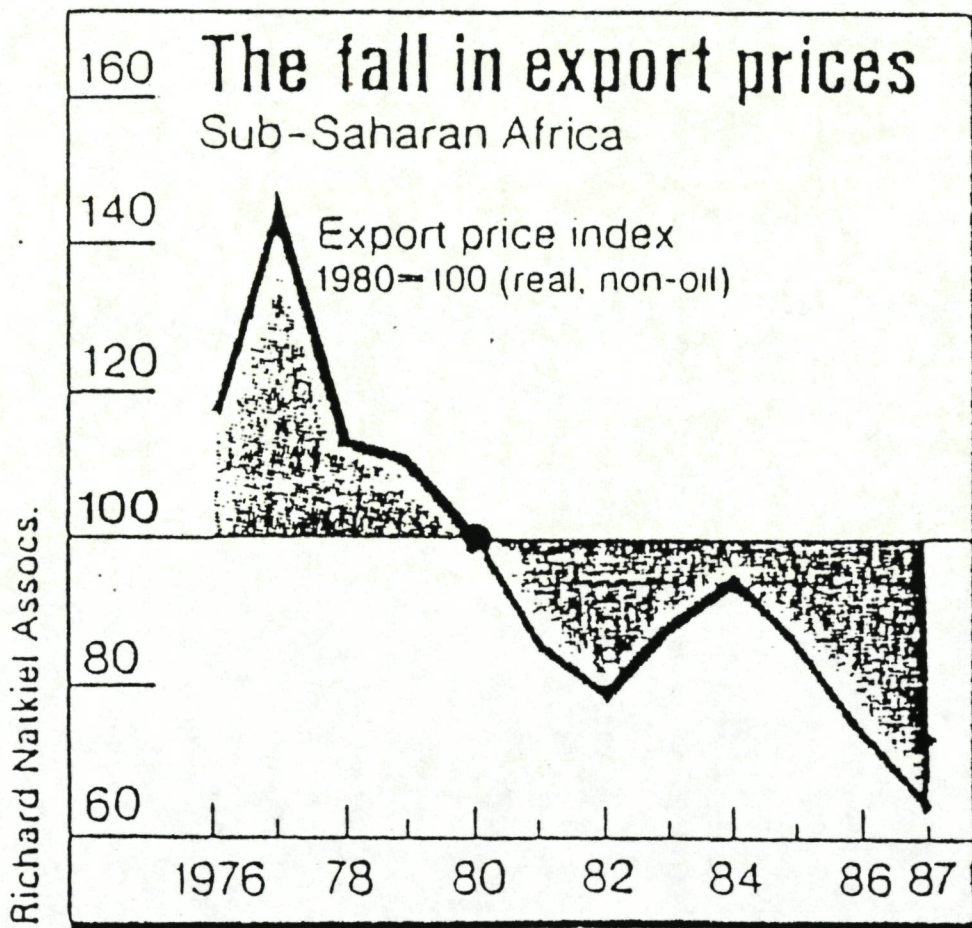
Bronnen: World Bank, World development report 1986; Commodity trade and price trends 1986.

SCHEME 3
PRICES OF RAW MATERIALS OVER THE LAST CENTURY



GRONDSTOFFENBROCHURE. SOMO

SCHEME : 4



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Debt ratios for Africa and Sub-Saharan Africa, 1982-1986

(per cent)

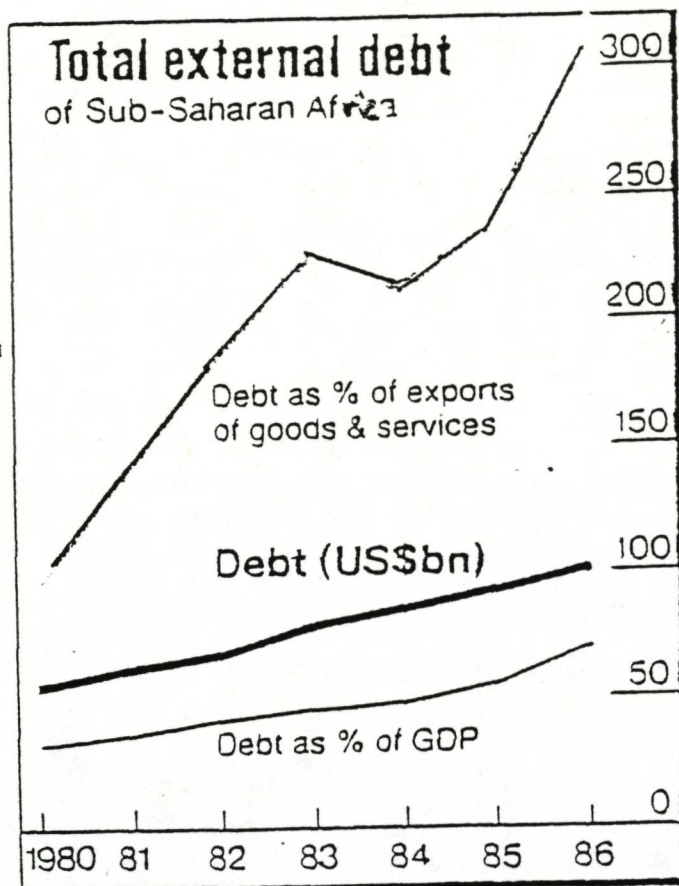
SCHEME : 5

	1982	1983	1984	1985	1986
Africa					
Debt/exports of goods and services	187.4	212.3	203.9	231.2	301.8
Debt service/exports of goods and services . .	21.5	23.7	23.9	26.3	28.8
Interest payments/exports of goods and services .	8.4	8.7	9.0	9.3	10.2
Sub-Saharan Africa					
Debt/exports of goods and services	187.7	229.6	214.3	238.2	312.6
Debt service/exports of goods and services . .	15.7	18.6	20.6	23.6	21.5
Interest payments/exports of goods and services .	7.4	8.2	8.6	9.0	8.5

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SCHEME : 6



South June 88

SCHEMA : 7

VALUE OF DIRECT DUTCH INVESTMENTS IN AFRICA

Tabel 4: Stand van de Nederlandse directe investeringen in Afrika (per ultimo jaar / in miljoenen guldens)*

sektoren	1975	1977	1979	1981	1982	1983	1984	DMB		
								84	85	86
Landbouw/visserij	94	94	94	93	—	—	—	—	—	1
Delfstoffen/olie	105	114	326	546	890	1.151	1.377	1846	1779	1133
Metaal en elektrotechn.	65	162	170	112	105	80	68	77	48	71
Voedings- en genotm.	175	194	104	83	94	114	151	151	170	146
Overige industrie	32	14	28	12	47	35	10	9	9	18
Bouw en installatie	2	125	54	66	104	159	171	167	-16	-26
Handel	83	83	75	83	93	93	97	93	84	66
Transport/kommunikatie	35	15	16	15	14	12	21	21	16	56
Bank/verzekering	8	6	6	6	6	6	7	13	10	10
Overige diensten	2	2	0	36	32	30	109	172	241	76
Totaal	601	809	873	1.052	1.385	1.680	2.011	2549/2341/1551		

* Deze tabel heeft alleen betrekking op vanuit Nederland gefinancierde investeringen.

Bron: v. Nieuwkerk & Sparling, 1985.
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DMB *handwritten* 1980/3 (cijfers 1984-86)

PRIVATE CAPITAL FLOWS TO AFRICA (from holland)

Partikuliere geldstromen / naar soort besteding (exkl. Zuid-Afrika / in miljoenen guldens)

jaar	<i>direct investments</i> DIRECT INVESTMENTS (inkl. leeuw. wisselen)	<i>other securities and claims</i> Other securities and claims	<i>private export credits</i> private export handelskredieten	Total totaal
1984	66,1	-356,8	139,9	-150,8
1985	-40,8	-108,9	-60,1	-209,9
1986	15,9	-96,9	-138,0	-219
1987	33,4	-20,3	-106,1	-93

Bron: DAC 1985-1986

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SCHEME : 8

CAPITAL FLOWS FROM HOLLAND TO AFRICA

Bilaterale kapitaalstromen vanuit Nederland naar Afrika* (exkl. Zuid-Afrika / in miljoenen guldens)

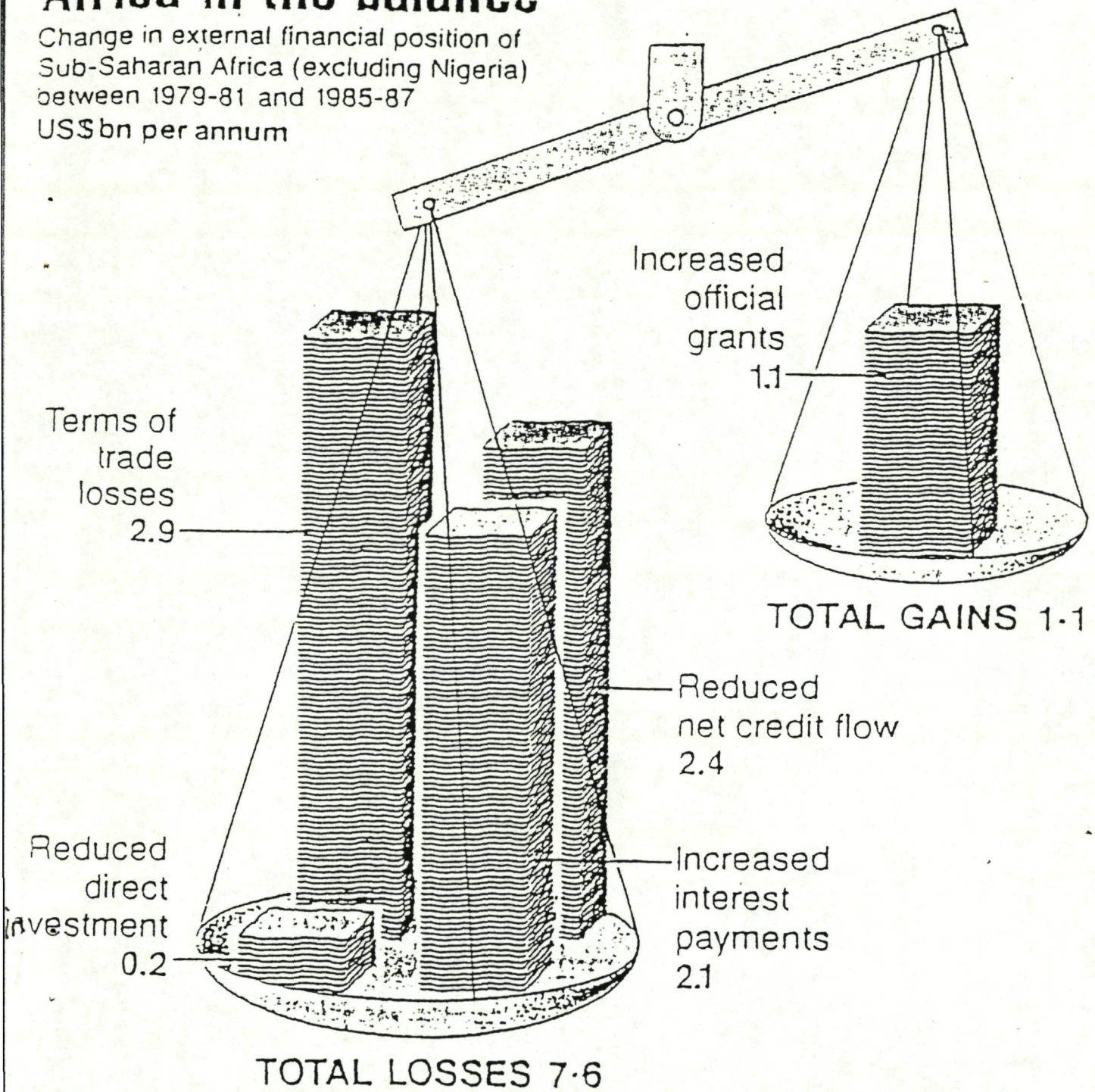
jaar	private flows partikuliere sektor	ODA officiële overheidshulp	TOTAL totaal
1979	437,5	605,6	1.053,6
1980	489,1	798,2	1.291,7
1981	308,9	859,6	1.170,2
1982	333,8	869,4	1.215,7
1983	362,8	798,6	1.168,8
1984	-150,8	1.037,9	887,1
1985	-209,9	907,5	698,8
1986	-219,0	1196	977
1987	-93,0	1101	1008

* netto geldstromen, inkl. terugbetalingen maar zonder dividenden en betalingen voor management- en technologie-kontrakten.

Bron: OECD 1978-1984; DAC 1985-1986.

Africa in the balance

Change in external financial position of Sub-Saharan Africa (excluding Nigeria) between 1979-81 and 1985-87
US\$bn per annum



Sources: UN: World Bank

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