

[OPINION]

In need of coherence: European development policies and the global economic crisis

By Can Akdeniz*

This is an important moment in the history of Europe's relations with developing countries. Over the next years, an unprecedented number of decisions and steps will be taken which bear on the relationship. These include the fate of the Lisbon Treaty, European elections and the nomination of the new Commission¹. All these political debates take place in times of a wide-ranging and complex global challenge: The economic crisis and its consequences.

Following the food and energy crisis, the developing countries are now confronted with a global economic downturn. Recent analyses show that all developing countries have been severely hit by the global crisis. Foreign direct investment and remittances are falling. Being exporters of commodities, the developing countries are suffering particularly from the prices decline. However, the negative impact of the crisis varies across regions and countries. Questions also remain about the long-term political, social and security implications of the crisis.

At major international conferences in 2008, the international community and the EU have committed themselves to support the developing countries in coping with the economic downturn. This year's G-20 summit in London resulted in an agreement to make available USD 850 billion of resources through the global financial institutions to support growth in emerging markets and developing countries by helping to finance counter-cyclical spending, bank recapitalization, infrastructure, trade finance, balance of payment support, debt rollover, and

social support. As part of this agreement, the leaders pledged to sell IMF gold reserves to raise USD 6 billion that will go toward helping out the world's poorest countries with cheap loans over the next two to three years.

Now, the EC has come up with twenty-eight pledges to support developing countries. On 8 April the EC released a communication package on financing for development, aid for trade, aid effectiveness and the millennium development goals based on the annual "Monterrey Survey"². The overview paper is entitled "Supporting developing countries in coping with the crisis." The documents include an analysis of the financial crisis and set out measures under the following headlines:

- Honouring EU's aid commitments, leveraging other resources;
- Acting counter-cyclically: by adapting priorities, disbursing aid more quickly and, where necessary, front-loading assistance and accelerating budget support;
- Improving effectiveness;
- Cushioning the social impact, supporting the real economy. This includes protecting the most vulnerable, maintaining and building infrastructure, revitalising agriculture, investing in green growth, stimulating trade and private investment;
- Working together for governance and stability.

Moreover, the overview paper underlines the G20 call for measures against protectionism: "More protectionism means less growth and less development. Ensuring that global markets remain open is one of the best ways to

* Can Akdeniz, Programme Co-ordinator at EADI.

1. See Grimm, Sven (2008), European Development Co-operation to 2020, EDC2020 project, <http://www.edc2020.eu/index.php?id=20>.

2. COM (2009), 160, Supporting developing countries in coping with the crisis. http://ec.europa.eu/development/icenter/repository/COM_2009_0160_4_EN.pdf

fight the downturn and stimulate a return to growth, which will be beneficial for both developed and developing world.”³ Concerning the global governance systems, the paper suggests a G20 commitment to reform global institutions: “Global Governance systems have been outpaced by the intensity of political and economic integration and interdependence worldwide. To harness this process, a more efficient and inclusive global architecture is needed.”⁴

Could the global economic crisis contribute to a wave of changes in EU development co-operation? An optimistic view suggests that a troubled economy could push EU member states to more aid effectiveness and EU-wide co-ordination. Hence, the global economic crisis could be both an opportunity and a challenge for EU development co-operation. Clearly, the EU is challenged to meet development commitments made in last years. The second challenge is the achievement of a co-ordinated action to support developing countries. But during the emergence of the financial crisis, the EU has also shown that it can bring the international community together to engage in united action.

Two main elements will drive the fate of European support to developing countries in coping with the crisis. The first is the degree of commitment to Europe and co-ordination, the second is the commitment to support most vulnerable developing countries in coping with the economic crisis. We can establish three alternative scenarios on the basis of these elements⁵:

- In the first scenario (Consensus), we can expect the EU to develop a strong commitment to both coherent European action and immediate support for the most vulnerable developing countries. Commitments are respected and accelerated. The EU implements the full aid effectiveness agenda and reduces aid fragmentation. EU shows political will and mobilizes the international community on reforms of the International Financial Institutions and the UN System.
- In the second scenario (Less-Consensus), we can expect that EU member states develop a commitment to

3. COM (2009), 160, Supporting developing countries in coping with the crisis, p13. http://ec.europa.eu/development/icenter/repository/COM_2009_0160_4_EN.pdf

4. Ibid.

5. Thoughts are based on Maxwell, S. and Engel, O. (2003), European development cooperation to 2010, <http://www.edc2010.net/pubs/pdf/wp219.pdf>.

support most vulnerable developing countries. However, there is little political will for developing a coherent European action. Aid effectiveness agenda and other reforms remain slow.

- In the third scenario (Fragmentation), we can expect EU member states to not pay enough attention to the most vulnerable developing countries. Instead, they are likely to support EU neighbouring countries and strategically important middle-income countries. Here, we can expect that only the security concerns for vulnerable developing countries (e.g. fragile states) dominate the EU member states agenda.

The pledges by the EC are a promising start in helping developing countries and could be a driving force for further reforms of European development co-operation. However, in times of triple crisis (food, fuel and finance) the EU development co-operation faces a complex agenda with a combination of internal and external issues. Internally, the failure of the proposed constitution in 2005 and the more recent Irish rejection of the Lisbon Treaty represent serious setbacks. Moreover, the budget deficits of the EU member states will be much higher than before the crisis. It is expected that much of the EU member states will see unemployment rates reaching double digits while public debts will be on the rise. Policymakers might be reluctant to spend more resources for development co-operation.

Recently, optimistic experts suggest that the worst is over for the world economy and predict a recovery in the next year. This optimism is welcome, but it could prove counterproductive: In a context of rising optimism, the EU and world leaders may be tempted to put back efforts to support developing countries in the aftermath of the crisis. Even in times of a sound world economy, an analysis of flows related to OECD country policies (i.e. aid spending, FDI, migrants' remittances, export earnings) shows that while aid favours the poorest developing countries, flows related to investment, migration and trade tend to favour relatively better-off developing countries⁶.

The case for optimism is thus a double edged sword. In times of severe global crisis, the most severe since the Great Depression, there is a lot to be done to keep development co-operation high on the political agenda.

6. See Katseli, Louka (2006), Policy Coherence for Development: What do we know? What can we do?, EADI Newsletter 1–2006.