ANALYSIS OF THE PROSPECTIVE ECONOMIC EFFECTS FOR THE SUDAN OF aSSOCIATION WITH THE EEC UNDER THE LOME CONVENTION WITH PARTICULAR REFERENCE TO FOREIGN TRADE AND AID

by

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Certificate

I certify that A.M.A. El Mannan has spent no less than two academic years in full time higher study towards the Degree of Master of Letters in Arts and that he has fulfilled the requirements under Ordinance D, Resolution of St. Andrews University Court, 1967, No. 9.

He is qualified to submit this thesis for the Degree of Master of Letters (Economics).

Supervisor

Declaration

This thesis embodies the result of a higher study undertaken by me on the topic approved by the Senatus Academicus of the University of St. Andrews in accordance with the regulations governing the Degree of Master of Letters in Arts (M.Litt.). The thesis has not previously been presented for a higher degree.

I was admitted as a Candidate for the Degree under Ordinance D, Resolution of the St. Andrews University Counrt, 1967, No. 9, in October 1973.

Candidate

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The views expressed in this thesis are those of the author alone and do not necessarily represent the views of those consulted.

Agil M.A. El Mannan

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Abbreviations

AASM	:	African Associate States and Madagascar
ACP	:	African, Caribbean and Pacific States
ADB	:	African Development Bank
AFESD	:	Arab Fund for Economic and Social Development
CAP	:	Common Agricultural Policy
CET	:	Common External Tariff
DCs	:	Developed Countries
DIP	:	Direction of Importation Policy
ECA	:	Economic Commission for Africa
EDF	:	European Development Fund
EEC	:	European Economic Community
EFTA	:	European Free Trade Association
EIB	:	European Investment Bank
ELS cotton	:	Extra-long-staple cotton
FAO	:	Food and Agriculture Organisation
GATT	:	General Agreement on Tariff and Trade
GNP	:	Gross National Product
GSP	:	Generalised System of Preferences
IBRD	:	International Bank for Reconstruction and Development
IDA	:	Industrial Development Association
IMF	:	International Monetary Fund
LATA	:	Long-term Agreement on Cotton Textiles
LDCs	:	Less Developed Countries
LIBOR	:	London Inter Bank Overdraft Rate
OAU	:	Organisation of African Unity
Stabex	:	Stabilisation of Export Earnings Scheme
u.a.	:	unit of account
UN	:	United Nations
UNCTAD	:	United Nations Conference on Trade and Development

Introduction

Introduction

This study is intended to be an inquiry into the prospective economic effects for the Sudan of its association with the European Economic Community (The EEC) under the Lomé Convention which was concluded between the EEC and 46 African, Caribbean and Pacific states, including the Sudan, on 28 February 1975. The study is mainly concerned with the trade and aid fields. Other economic aspects closely related to these two fields, such as regional integration, infra-structure and bringing about the desired structural change in the economy of the Sudan are also briefly examined.

Until now, there does not exist any adequate treatment of the Sudan-EEC economic relations. Except for some few official short reports on the subject, no study has been made either during the time of the conventions that preceded the Lomé Convention or during the course of the negotiations that led to this Convention. In almost all of the official reports, concentration was mainly on the performance of the Sudan's exports to the EEC, and enumeration of the pros and cons of the different association arrangements on the performance of exports. In none of them was the matter treated within the context of the overall development impact, and in almost all of them, the possible dynamic effects of entering into a co-operation arrangement with the EEC were completely neglected.

In this study, it is intended to treat the matter in the context of the overall development impact, giving particular attention to the expected dynamic effects of joining the Lomé Convention on the Sudan's economy with particular reference to the fields mentioned above.

In such studies, it is common practice that the expected benefits or losses from joining such an arrangement are assessed on an ex-ante -

ex-post basis, i.e. comparing the situations before and after joining the arrangement involved. The same approach is followed in this study. The first three chapters deal with the ex-ante situation and the remaining two chapters with the ex-post situation. As the time which has elapsed since the entering into force of the Lomé Convention is quite short, the actual ex-post situation is not as yet known. Therefore, this side of the matter is treated in the light of the main objectives the Convention is supposed to serve and the development policies now pursued in the Sudan.

Chapter I is an analysis of the performance of the Sudan's trade and aid during the period 1958-72, with particular reference to the Sudan-EEC relations in this respect. As far as trade is concerned, the EEC is the major trade partner for the Sudan, whereas in the case of aid, the EEC has not hitherto been an important aid donor to the Sudan. There have not been any significant changes in the structure of exports during the period under review, but the period has witnessed quite significant changes in the direction of trade. The actual performance of trade and the reasons behind the changes in its direction are discussed in detail in this chapter.

Economic policies in the field of economic co-operation, no less than those in other spheres, result from a complex interaction of political and economic factors. In Chapter II, we discuss, with some reference to political as well as economic factors, the policies followed by the EEC towards other countries, particularly the African Associate States and Madagascar (AASM), and also those followed by the Sudan during the pre-Lomé period. In this respect, the experience of the Sudan was rather different from that of other African countries.

There had been a general disinclination in the Sudan to participate in economic groupings, particularly the EEC. The policies pursued by the Sudan, and the reasons behind their pursuance, are discussed in this chapter.

The ex-ante situation is completed by an analysis of the effects of the policies pursued in the past on the economy of the Sudan. This is undertaken in Chapter III. The issues raised here is whether it was to the benefit or detriment of the Sudan to pursue the policies in question, with particular reference to the Sudan-EEC relations. This is done by comparing the actual situation with what might have been expected had the Sudan participated as an associate in the conventions that preceded the Lomé Convention. Two distinct periods can be distinguished in the experience of the Sudan from independence up to the time of joining Lomé. The first is the period during which a global trading policy of a non-discriminatory non-preferential nature was pursued. The duration of this policy extended from the time of attaining independence in the 1950s until the mid 1960s. The second period started with the policy known as the 'Direction of Importation Policy' (DIP), which lasted from 1965 until 1971. As a result of that policy, economic relations with the Socialist countries were strengthened at a time when, by contrast, many other African countries sought closer links with the EEC. In investigating the benefits and losses of the global policy era, the method employed is to assess whether there would have been any additional prospects for the Sudan's exports in the EEC, had the Sudan joined the previous conventions, and whether the aid that might have been obtained from the EEC would have been greater and more valuable than aid actually obtained from other sources, or not. With regard to the benefits and losses in the DIP era, the

method followed is to investigate the magnitude of the shift in trade from the EEC to the Socialist countries. This is done by measuring income elasticities of imports from the Socialist countries vis-à-vis elasticities of imports from the EEC during two different periods. The differences between the elasticity coefficients of the two sources are taken as the degree of magnitude of the shift. This is followed by a consideration of whether DIP resulted in trade diversion or trade creation, or whether in a broader context this policy was beneficial or detrimental to the Sudan. As trade policies and practices of the Socialist countries differ from those of the EEC countries in many respects, and due to the paucity of complete data on the different sets of prices quoted by the former group of countries to the different buyers, the conventional methods employed in the current literature for measuring trade diversion-trade creation effects have been found unsuitable for the case under study. Therefore a less refined method is used here. This method compares the price indices for similar commodities (i.e. under the same SITC group) imported from both sources at different points in time. The differences between the indices of both sources are taken as a measure of the cost differentials between the prices of both. The investigation is done under two basic assumptions:-

i) The qualities of the commodity of each source remained the same during the period under consideration.

ii) The difference in the absolute price of a particular commodity imported from both sources was due to a difference in quality.

In our exercise, if the indices of the Socialist countries were higher, that would indicate a trade diversion in the case of the commodity involved and vice versa if the opposite had taken place. This exercise is necessarily approximate and provides an indication only of the

direction and magnitude of the effect. There are many difficulties in measuring the exact magnitudes of trade creation-trade diversion and a detailed analysis would be beyond the scope of this study.

The above discussion is applicable only in the case of imports. To complete the analysis and see whether the overall effect of DIP was 'trade creating' or 'trade diverting', or more generally, beneficial or detrimental, the effect on exports has also been taken into consideration. The investigation on this side is focussed on whether joining the EEC under the previous conventions instead of introducing DIP, would have resulted in additional prospects to the Sudan's exports. Putting it differently, did DIP result in increasing the volume of the Sudan's foreign trade (exports and imports) or not? If DIP resulted in boosting the exports of the Sudan, and consequently increased her capacity to import, then it is sensible to argue that there has been an overall trade creation effect. If the opposite took place, i.e. fall in total exports and consequently imports, it could be argued that there has been a proper trade diversion.

As mentioned earlier, the ex-post situation is dealt with in the light of the objectives and instruments laid down in the Lomé Convention and the economic policies now pursued by the Sudan. In Chapter IV, the differences in the general atmosphere at the time when the previous conventions were concluded and when Lomé was concluded, the provisions of the new convention and the differences between them and the provisions of the previous conventions, are dealt with. This is followed by a discussion on the principles underlying the new Convention and the innovations in the new approach to the association arrangement. In this respect, emphasis is laid on the dynamic effects expected to result from the new approach on the economies of the ACP countries. The analysis

makes use of the concepts of the effective rate of protection and preferences to see whether or not the privileges provided for in the new Convention might be expected to result in shifting some activities in which the ACP states have comparative advantage and the EEC countries have comparative disadvantage, to the former group. It is commonly acknowledged that what matters in allocating the resources of an economic grouping such as the EEC-ACP grouping more efficiently, is not the nominal tariff preferences but rather the effective rate of the preferences and to what extent they lead to the shifts of the activities of the whole region according to the comparative advantage principle. This concept is elaborated in the last part of this chapter. In this chapter also some comments are made on some aspects of the Export Earnings Stabilisation Scheme of the Convention (STABEX) in matters of particular interest to the Sudan. An appendix on the position of the Sudan among the ACP states is attached to this chapter.

In thelight of the discussion in the previous four chapters, the short, medium and long-term effects of joining Lomé on the economy of the Sudan are assessed in Chapter V. This chapter falls into two parts, the first dealing with the prospective effects during the short and medium terms and the other with the long-term effects. Discussion in the first part pertains mainly to the expected benefits in the existing pattern of the Sudan's trade, and benefits expected from the Stabex Fund. Instability indices have been computed to see whether the Sudan will be eligible for transfers from the Fund and to what extent it will benefit from the Stabex Scheme.

The discussion of the long-term effects are mainly concerned with the dynamic effects, i.e. the prospective effect of bringing about the desired structural change in the economy of the Sudan. This discussion is undertaken in the light of the current development policies and plans of the Sudan, and the expected impact of the effective rates of preferences that the Sudan will enjoy in the EEC market on developing its potential exports.

In Chapter VI, a summary of the whole study and its findings is made.

Chapter I

Chapter I

SUDAN'S TRADE AND AID RELATIONS WITH THE EEC DURING 1958-72

The period 1958-72 saw many changes in the pattern of the Sudan's trade and aid relations which resulted above all from changing governmental policies. In this chapter, we shall discuss the major changes in the pattern of these relations, with particular reference to patterns of trade and aid with the EEC. Issues relating to the changes in official policies will be dealt with, among other things, in the next chapter.

We start by discussing the general structure, direction and performance of the Sudan's foreign trade. We next examine the country's trade relations with the EEC and conclude with an analysis of the aid relations with the Community.

1. The structure, direction and performance of the Sudan's foreign trade:

(a) Exports: Exports are equivalent to about 18%[1] of the Sudan's GNP. Four commodities, cotton, gum-arabic, groundnuts and sesame, contribute about 82% of the country's total export earnings. Cotton is the most important single commodity in the export list and alone accounts for about 60% of total earnings. The share of each commodity in the total export proceeds of the Sudan is shown in Table No. 1 below:

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(1) Department of Statistics - Khartoum: 'National Accounts 1968'

Table No.1.1

Percentage share of the main export commodities in total export earnings of the Sudan during the period 1958-72 (averages).

Commodity	1958-60	1961-62	1964-66	1967-69	1970-72	Whole Period
Cotton & seed	63.6	62.9	50.2	59.1	61.4	59.4
Gum-arabic	10.6	7.8	10.5	10.4	7.6	9.2
Groundnuts	6.9	8.8	12.3	7.1	7.1	8.3
Sesame	5.7	6.9	8.3	8.6	6.8	7.3
Others*	13.2	13.6	18.7	14.1	17.1	15.8
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Calculated from the annual "Economic Survey" issued by Ministry of Finance, Khartoum, Sudan, during the period 1958-72.

*The main items included under 'others' are oilseed cakes and meal, live animals and meat, hides and skins, and sorghum. The share of each of the four groups in total export earnings is 4.1%, 2.3%, 2.0%, and 1.6% respectively.

No significant changes in the structure of the Sudan's exports occurred during the period. The decline in the share of cotton during 1964-66 resulted from the fall in world demand for cotton at that time, and not from any increase in exports of the other commodities.

During the period under review, the rate of growth of total exports was higher in the second half of the period, mainly due to the faster rate of increase in cotton exports. The average annual rates of growth of total export earnings, and of individual main commodities, have been computed, using the semi-logarithm trend

equations.[2] The result of the computation is shown in Table No. 2 below:

Table No. 2

Average annual rates of growth of earnings of main export items and total export earnings. (averages)

Commodity	1958-64	1965-71	1958-71
Cotton	5.2	12.2	5.8
Gum-arabic	2.7	4.7	4.4
Groundnuts	22.8	2.1	8.4
Sesame	9.7	7.7	8.4
Total exports	8.3	10.5	6.0

Source: Calculated from figures published in the annual "Economic Surveys" issued by the Ministry of Finance, Khartoum.

The sharp drop in the growth rates of exports of groundnuts can be attributed to reduced sales to the EEC[3], the major importer, resulting from its preferences for the oils of temperate zone oilseeds, (soya bean, rape seeds and sunflower), and the expansion in the production of Community-grown oilseeds in response to the high prices offered by the Common Agricultural Policy (C.A.P.) to the producers.

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(2) The equation is:

$$\text{Log } Y = \text{Log } a + T \text{ Log } b$$

Where 1) $\sum \text{Log } Y = N \text{Log } a + \text{Log } b \sum T$

2) $\sum T \text{ Log } Y = \text{Log } a \sum T + \text{Log } b \sum T^2$

Where:

Y = the dependent variable (export earnings)
T = time
a & b = constants
$b = 1 + r$
r = average annual rate of growth

All growth rates in this chapter have been computed in this manner.

(3) Ellis, F., Marsh, J. and Ritson, C., "Farmers and Foreigners: Impact of the Common Agricultural Policy on the Associates and Associables", Overseas Development Institute, London 1973, p.37

As regards the direction of the Sudan's exports during the period under review, Table No. 3 below illustrates the situation:

Table No. 3

Percentage share of the Sudan's main customers in total export earnings during the period 1958-72 (averages)

Destination	1958.60	1961-63	1964-66	1967-69	1970 72
EEC (Six)	26.0	30.5	30.3	25.9	26.0
EEC (Nine)	47.4	45.5	39.2	32.8	30.5
East Europe	4.5	10.8	10.8	11.5	17.8
China	3.1	4.2	5.4	5.8	8.6
India	11.4	11.8	8.9	10.3	13.2
Japan	3.1	5.2	5.9	8.4	8.1
Others	30.5	22.5	29.1	31.8	21.8
Total	100.0	100.0	100.0	100.0	100.0

Source: Ministry of Finance, Khartoum: Annual "Economic Surveys"

Although the share of the six original members of the EEC rose to 30.5% during 1961-63, it gradually fell to its level recorded at the beginning of the period under review. The sharp decline in the share of the present nine members of the EEC, from 47.4% to 30.5%, is mainly explained by reduced cotton purchases by the United Kingdom(4). It is of interest to note that, while the combined share of the Sudan's traditional customers, namely the nine EEC members and India, declined, that of the relatively new trade partners, particularly the Socialist countries of East Europe, considerably increased towards the end of the period under review. As Table No. 4 clearly shows, the changes in the direction of exports have been mainly influenced by the changing shares of each of the

(4) Trade between the Sudan and Denmark and Ireland have been insignificant.

Sudan's main customers in total cotton sales:

Table No.4

Percentage share of main customers in the Sudan's total cotton exports during the period 1958-72 (averages)

Destination	1958-60	1961-63	1964-66	1967-69	1970-72	Whole Period
EEC (Six)	24.9	23.3	28.7	31.0	18.6	24.5
EEC (Nine)	59.2	37.2	38.9	37.8	23.1	36.5
East Europe	8.5	16.5	17.3	18.6	28.0	19.3
China	4.2	7.0	10.2	7.0	12.5	8.7
India	16.2	18.4	15.6	14.5	18.1	15.7
Japan	3.0	6.8	8.1	9.2	6.6	6.9
Others	8.9	14.1	9.9	12.9	11.7	12.9
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Ministry of Finance, Khartoum: Annual "Economic Surveys"

Despite the fact that total exports grew faster in the second half of the period under review compared to its first half (see Table No. 2), the growth rates of the exports, as well as those of cotton sales to the main customers, with the exception of India, were slower in the second period. It will be recalled that, as shown earlier in Table No. 2, the average annual rate of growth of the Sudan's exports rose from 8.3% during 1958-64 to 10.5% during 1965-71. Table No. 5 below shows the growth rates of total exports to the main customers during the two periods mentioned:

Table No. 5 /

Table No.1.5

Rates of growth of total exports and of cotton exports to the main customers during the period 1958-71

Destination	Growth rates of total Exports 1958-64	1965-71	1958-71	Growth rates of cotton Exports 1958-64	1965-71	1958-71
EEC (Six)	11.8	3.0	5.6	6.5	2.0	4.0
EEC (Nine)	3.4	2.2	1.0	-2.9	-1.3	-0.8
East Europe	25.9	12.5	12.7	30.8	16.4	15.3
China	21.8	27.8	17.4	29.8	19.1	16.7
India	4.5	20.6	6.4	5.4	7.1	5.5
Japan	27.3	18.1	14.8	33.0	9.7	12.3
All Destinations	8.3	10.5	6.0	5.2	12.2	5.8

Source: Calculated from the annual "Economic Surveys", Ministry of Finance, Khartoum.

Apart from the faster increase of exports to India, the faster rate of increase of total exports during the second period is explained by the fact that purchases of cotton by new customers, i.e. Hong Kong and Spain(5), considerably increased during the second half of the period under review. In addition, substantial increases in the export of meat and cottonseed oil to both Egypt(6) and Saudi Arabia were recorded. Finally, it may be noted that exports of hides and skins quadrupled during the second half of the period.

(b) Imports: Imports, like exports, are equivalent to about 18% of the country's GNP. During the first half of the period

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(5) Cotton exports to Hong Kong increased six-fold and to Spain four-fold during the second half compared to the first half of the period.

(6) Among these projects were the resettlement of fifty thousand citizens in a new agricultural scheme, sugar factory and two dams.

under review, imports[7] grew at a faster rate than exports, at a rate of 10.6% per annum compared to 8.3% per annum for exports. However, during the second half of the period, (1965-71), imports grew at a slower rate, at a rate of 7.8% per annum, compared to the export growth rate of 10.5% per annum. For the whole period under review, (1958-71), imports increased at an average annual rate of 4% while exports increased at a rate of 6%. The slower growth rate of imports during the second half of the period may be explained mainly by the fact that most of the main projects envisaged in the country's Ten Year Plan of 1961/62-1970/71 were completed during the first half of the period. Moreover, import controls had also been introduced in 1965 to meet balance of payments problems which were aggravated by the depletion of foreign exchange reserves resulting from a drop in export earnings[8].

As far as the direction of imports is concerned, the share of each of the main suppliers is shown in Table No. 6 below:

Table No. 6

Percentage share of the main suppliers of Sudanese imports during the period 1958-72 (averages)

Source	1958-60	1961-63	1964-66	1967-69	1970-72
EEC (Six)	25.3	20.1	27.7	24.1	24.9
EEC (Nine)	50.7	47.5	40.8	28.2	29.7
East Europe	4.0	7.8	8.9	10.8	17.9
China	2.8	1.6	4.7	5.4	8.9
India	10.3	7.9	7.1	9.7	13.6
Japan	2.8	5.9	5.6	7.9	8.3
Others	31.4	29.4	12.9	38.0	21.6
Total	100.0	100.0	100.0	100.0	100.0

Source: Ministry of Finance, Khartoum, annual "Economic Surveys"

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(7) For rates of growth of exports see Table No. 2. Growth rates for imports have been calculated from data taken from the same source as Table No. 2.

(8) See appendix II for details of export and import figures during the period 1958-72.

It can be seen that the trend in the shares of the main suppliers of the Sudan's imports follows closely that of exports (see Table No. 3). The similarity in the patterns of change of both imports and exports can also be explained by the deliberate policy measures designed to balance trade with each partner as will be discussed in more details in the next chapter.

2. Trade relations with the EEC:

As tables No. 3 and No. 6 show, the original six members of the EEC have during the period been the principal trade partner of the Sudan, absorbing about a quarter of its total exports and supplying a similar proportion of its total imports. However, the share of the Community in its enlarged form declined from about half of the Sudan's foreign trade at the beginning of the period to about 30% at the end of the period under consideration. What distinguishes the EEC from other trade partners of the Sudan, is that, while the latter mainly import cotton, the Community's purchases include considerable proportions of virtually all the main export items of the Sudan. Table No. 7 below illustrates this point:

Table No.7

Percentage share of EEC (Six and Nine) in Sudan's Exports of main commodities (averages)

Commodity	1958-60		1961-63		1964-66		1965-69		1970-72	
	Six	Nine	Six	Nine	Six	Nine	Six	Nine	Six	Nine
Cotton	24.9	59.2	23.3	37.2	28.7	38.9	31.0	38.8	18.6	23.1
Total Oilseed	48.9	48.9	40.0	40.0	51.6	51.6	43.4	43.4	45.2	45.2
Groundnuts	62.4	62.4	55.9	55.9	61.6	61.6	57.1	57.1	62.5	62.5
Sesame	34.2	34.2	20.9	20.9	36.9	36.9	31.7	31.7	27.1	27.1
Gum-arabic	27.4	46.2	35.1	53.4	32.1	37.3	30.8	42.5	30.3	40.9
Oilseeds cake & meals	70.2	84.8	72.2	79.6	81.8	85.8	82.1	83.6	79.3	79.3
Hides & skins	19.0	23.0	18.4	21.0	16.9	19.9	28.7	30.3	30.8	30.8

Source: Ministry of Finance, Khartoum: Annual "Economic Surveys"

This table indicates that the original six members of the EEC absorbed about a quarter of Sudan's total cotton exports; about half of its total oilseeds exports, about one-third of its total gum-arabic exports, about one-third of its total hides and skins exports, and almost eighty per cent of its exports of oilseeds, cake and meals. The effect of the enlarged Commmunity is only visible in cotton and gum-arabic exports, raising the share in both to forty per cent. In order to follow the performance of the individual export commodities during the period under review, each will be discussed separately below.

(i) Cotton: At the outset, it is worth mentioning that more than 80%(9) of the Sudan's cotton exports are of the extra long staple (ELS) variety. The total production of this variety is exported. This type of cotton constitutes about 4%(10) of the total world cotton production. The Sudan and Egypt are the main producers of ELS cotton in the world, their share being about 70%(11) of world total production. Other important producers are the USSR (17%), Peru (5.6%), and the USA (1.5%). The Sudan's share in ELS world production increased from 25% in the early 1960s to about 40%(12) in 1971/72, while that of Egypt declined from 45% to 30% respectively. This type of cotton is mainly used in the apparel industries for luxury products, while the other types of cotton are also used for household and industrial purposes.

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(9) The share of the new three members of the EEC in total exports of both groundnuts and sesame is less than ½%.

(10) Commonwealth Economical Committee: "Industrial Fibres - Review", London 1970, p.70.

(11) International Cotton Advisory Committee, "Cotton World Statistics", Washington, USA, October 1975.

(12) ibid.

On the side of consumption, West Europe is the main consumer of ELS cotton[13], followed by the USA which absorbs all its own production and imports additional quantities from the Sudan and Egypt to meet its requirements. Although Japan imports ELS cotton, yet the share of this variety in its total consumption of cotton is small. According to the recent reports[14] on cotton, the importance of the markets in East Europe for this variety is believed to be growing.

On the supply side, there has been a considerable change since the early 1960s resulting from the fact that Egypt increased its domestic consumption of ELS cotton and at the same time reduced her cotton acreage appreciably. ELS now constitutes about 40% of Egyptian total cotton production. About two thirds of Egypt's ELS goes to the Socialist countries. Due to the reduction in Egypt's exports, Sudan's share in world exports rose from about 20% in the early 1960s to about 35% while its share in EEC imports of this variety of cotton rose to about 50%.

After this introductory brief survey of ELS cotton, it might be appropriate to suggest the factors affecting the consumption of ELS type cotton in the markets of the EEC. It is evident that the position of cotton (all types) in the EEC has been deteriorating since the 1950s, due to severe competition from man-made fibres, particularly rayon and acetate. No separate data for the consumption of cotton and man-made fibres in the EEC countries are available. The figures available are for the total quantities consumed in

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(13) "Industrial Fibres" Review, op. cit.

(14) ibid.

West Europe. According to the "Industrial Fibres Review" (see source of Table No. 1.8), the EEC is the major consumer among the West European countries. The figures of Table No. 1.8 below show the deteriorating situation of cotton in West Europe and give an indication of the situation in the EEC.

Table No 1.8

Percentage share of cotton and man-made fibres in total fibre consumption in West Europe[a] during 1961-70

Year	Cotton	Man-made fibres	Other[b] fibres	Total
1961	49.7	27.1	23.2	100
1962	47.1	28.6	24.3	100
1963	44.8	31.9	23.3	100
1964	41.3	38.9	19.8	100
1965	39.3	41.1	19.6	100
1966	38.1	43.4	18.5	100
1967	36.8	45.6	18.6	100
1968	35.3	48.6	16.1	100
1969	33.3	51.6	15.1	100
1970	32.6	53.2	14.2	100

Source: Commonwealth Economic Committee, "Industrial Fibres Reviews"

(a) EEC, Norway and Sweden
(b) Other fibres are wool and silk

As the table shows, cotton has lost a lot of ground to man-made fibres. A number of reasons have been suggested to explain the switch from cotton to man-made fibres; the latter have lower manufacturing waste, longer service life, more strength as well as stability in prices and supply. Moreover, due to a change in fashions during the recent years towards lighter fabrics, as a result of better heating facilities in houses, cars, etc., man-made fibres have gained a lot of ground.

As far as the demand for ELS cotton is concerned, it appears to have been influenced by the same factors affecting other varieties of cotton. In addition, however, it has been argued that "cellulosic fibres"[15] are cheaper and good substitutes in some uses for the highly valued extra-long staple cotton... The fact that extra-long staple cotton is more expensive than short staple while the prices are the same for long and short staple synthetics also tends to favour the use of man-made fibres."[16]

A further important consideration is that since the mid 1960s, technological progress in the textile industry in Western Europe, Japan and the USA has made it possible to substitute ELS by shorter staples. In this respect, a report[17] made by the Institute of Social Studies - The Hague, reveals that the demand for ELS cotton is also affected (beside competition from synthetics) by technological improvements in the manufacturing industry's machinery and its consequences for the substitution between ELS cotton and other cotton or synthetics. Modern spinning machinery and equipment have introduced more flexibility in the use of different staples by making possible the production of strongest yarns from the shorter types of cotton. Until recently, ELS cotton was the only type of cotton having escaped from the influence of American cotton prices on the international cotton market. Because it is used in certain specialised end-uses, not easily substitutable for shorter staple varieties, its prices tended to move independently of the other types.

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(15) Cellulosic fibres are made from wood pulps and cotton linters.

(16) Commonwealth Economic Committee: "Industrial Fibres Review", 1970, op. cit.

(17) The Institute of Social Studies - The Hague, Netherlands, "Sudan and the European Economic Community", 1968 (unpublished).

Now, however, it seems that - apart from the competition faced by ELS cotton from synthetic fibres, recent developments in the spinning industry have rendered its substitution by shorter staples easier in some uses. The reaction of Sudanese ELS to American prices, on which all prices of other types of cotton are based, is clear from the following table:

Table No. 1.9

Sudan's ELS and American cotton prices during 1961-70 c.i.f. Liverpool in U.K. pence per pound

	Sudan's Lambert No. 6	American Middling 15"/16"
1961	30.2	21.4
1962	27.8	21.7
1963	26.6	20.8
1964	30.9	20.7
1965	30.2	20.7
1966	27.5	20.0
1967	26.6	20.7
1968	31.8	23.9
1969	32.9	22.0
1970	34.4	23.8

Source: Commonwealth Committee: "Industrial Fibres Review", op. cit.

Up to about the mid 1960s, the table indicates that ELS cotton prices and those of the American cotton moved independently. Afterwards, prices of both varieties moved together in most of the years tabulated above. This is more clear when the coefficient of correlation between both sets of prices for the periods 1961-65, and 1966-70, and the whole period of 1961-70 are compared. During the 1961-65 period, the coefficient was (-0.24) while during 1966-70, it was (0.86). For the whole period the coefficient was rather weak (0.45).

As far as competition from AASM countries is concerned, none of them produces ELS cotton. But efforts were made with assistance

from the Community to increase the production of shorter staples of cottons, for which demand in the EEC is relatively better, in countries like Mali, Chad, Cameroon, Ivory Coast and Niger. Increased production was accompanied by substantial increase in their exports of cotton to the EEC. During 1965-72, for example, quantities of cotton exported from AASM countries to the EEC almost doubled (from 46,000 tons in 1965 to 91,000 in 1972),[18] and their share in total EEC cotton requirements doubled as well from 5% to 10% during the same period. At the same time the Sudan's share during the period in EEC imports of cotton remained almost stagnant at 4.5%. There is no doubt that these developments in the production of cotton in AASM countries during the second half of the 1960s poses a new threat to Sudan's cotton exports in EEC markets.

Despite these developments in the position of ELS cotton in world markets, Sudan still depends on ELS cotton. This has led some to argue that the main problem for Sudan is that it produces the wrong type of cotton. The situation, as the periodical "African Development"[19] puts it in a recent survey on Sudan's economy is that:

> "In the market place, Acala (medium staple cotton) is a popular and versatile variety and why it should not replace Egyptian types (ELS cotton) on a larger scale in the Gezira, the main irrigation scheme, has long been something of a mystery to the outside world."

Recently, a group of experts formed to study the situation of ELS cotton has in fact recommended that the acreage under this type of cotton should be reduced considerably through replacing it with

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(18) Source: U.N. "World Trade Statistics Annuals" - New York.

(19) African Development, January 1976, "Sudan Economy Survey: Sudan Cotton - The Giant Stirs'", Rake, A. ed., Wheatsheaf House - London.

shorter varieties of cotton and other crops.[20] Some measures are now being taken to serve this end.

In the light of the aforementioned facts, it could be argued that the main problem facing the Sudan's ELS cotton is not the problem of access[21] to the traditional markets such as the EEC markets, but rather the production of big quantities of a commodity for which world demand is falling persistently, i.e. about double the quantities that could be marketed in the world markets.

(ii) Oil seeds: The Sudan exports three types of oil seeds, namely, groundnuts, sesame and cotton seeds. The EEC[22] imports groundnuts and sesame only; its absorption of cottonseeds is insignificant, the demand for oil extracted from this seed being low in the Community. For instance, the total imports of cottonseeds by the Community from all sources amounted to 27,000 tons[23] only in 1972. We shall, therefore, confine our discussion to groundnuts and sesame.

(a) Groundnuts: The EEC imports about 90% of its total requirements of groundnuts from Africa, mainly from Senegal, Nigeria, Niger, Gambia, Mali and the Sudan. Table No. 1.10 below

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(20) Source: Ministry of Finance and National Economy - Khartoum, "Cotton Conference", 1971 (in Arabic, not published). Also see Appendix (1) on World and Sudan cotton stocks during 1961-70.

(21) No tariffs or quantitative restrictions are imposed on cotton in the Community.

(22) All types of oilseeds enter the Community duty free.

(23) U.N., "World Trade Statistics Annual", op. cit., 1972.

shows the share of the main exporting countries in the total imports of groundnuts by the Community.

Table No. 1.10

Percentage share of the main exporters in 1965-72 of the total imports of groundnuts by the EEC

	1965	1966	1967	1968	1969	1970	1971	1972
AAMS	43	41	42	38	34	29	33	24
Nigeria	34	42	37	42	47	37	21	12
Gambia	2	2	1	2	4	4	3	5
Sudan	11	6	7	6	6	5	16	17
Total	100	100	100	100	100	100	100	100

Source: U.N., "World Trade Statistics Annuals" - New York.

Among the EEC members, France is the major importer, although its share is continuously declining as it is clear from Table No. 1.10 below.

Table No. 1.11

Total imports of groundnuts by the EEC (Six) and the share of France 1965-72 (in 000 tons)

	1965	1966	1967	1968	1969	1970	1971	1972
Total EEC imports	769	880	874	949	754	588	454	370
France	506	541	524	516	476	317	227	149
% share of France in total	66%	62%	62%	54%	63%	54%	50%	40%

Source: as for Table No. 1.10.

As may be seen from the table above, total imports of groundnuts by the EEC dropped to almost half during the period. This may be explained, apart from the increase in Community-grown oilseeds production, referred to earlier, by the fact that income elasticities of demand for vegetable oils in the countries of the EEC are rather low as shown in Table No. 1.12 below:

Table No. 1.12

Income elasticities of demand for vegetable oils in five EEC countries in 1966

Country	Income elasticity
France	0.1
Belgium	0.0
West Germany	0.0
Netherlands	0.0
Italy	2.3

Source: The Institute of Social Studies - The Hague, Netherlands, op. cit.

Demand within the Community tends rather to favour the types of oilseeds that have high oil-cake and meal contents. This in turn is due to the fact that demand for meat is highly income elastic. Among oilseeds, soyabean (supplied mainly by the USA), has the highest cake content, i.e. 79%,[24] compared to an average of 56% for groundnuts and 52% for sesame. Its oilcake is the most popular and versatile of all oilcakes. This popularity is due to a variety of reasons, such as research and promotion carried out

(24) Source: UNCTAD/GATT, International Trade Centre, "The Major Import Markets for Oilcake", Geneva 1972, p.2.

by soyabean producers and quality control measures which ensure a regular and standard supply, etc. Consequently, soyabean has been tending to replace groundnuts in EEC markets as the following table indicates:

Table No. 1.13

EEC imports of groundnuts and soyabean (in 000 tons) from 1965-72

	1965	1966	1967	1968	1969	1970	1971	1972
Soyabean	2380	2942	3006	2997	3235	4790	4811	5482
Groundnuts	769	880	847	949	754	888	454	370

Source: U.N., "World Trade Statistics Annuals" - New York.

Soyabean imports increased at an average annual rate of 11%, whereas groundnut imports declined at a rate of 8.8% during the period shown. The correlation coefficient between changes in soyabean and groundnuts imports has been very high (0.80)[25] indicating that the decline in imports of the latter was mainly due to the expansion in the former.[26] The drop in groundnuts imports was recorded in spite of the special threshold prices offered to AAMS under the EEC CAP every year. This special treatment took

(25) Calculated from data in Table No. 1.13.

(26) According to a study made by FAO: "Approaches to International Action on World Trade in Oilseeds, Oil and Fats", it has been found that among all oilseeds, soyabean is the closest substitute for groundnuts. The coefficient of correlation between groundnut oil prices and other fats and oils were as follows:
Soyabean: 0.80, lard: 0.64, cottonseed oil: 0.62, other fats and oils not significant - Source: FAO "Community Policy Studies", No. 22 - Rome 1971, p.71.

the form of deficiency payments paid by the Community to the AAMS countries when world prices fell below a stated reference price. Under this system[27], if prices fall below the reference level, the Community should cover by financial aid 80% of the difference between the reference and actual prices. For the period 1967-69, the maximum fund allotted to this purpose was 13 million u.a. The reference price for groundnuts and oil was 186 and 305 u.a. per ton respectively for the period mentioned above.

As the degree of substitution between oilseeds is very high, price relationships between them are crucial in determining the level of demand for each type. In this respect soyabean has an advantageous position among oilseeds as its price is relatively low as shown in the table below:

Table No. 1.14

World average units prices for some major types of oilseeds in the U.K. $ per ton

	1965	1966	1967	1968	1969	1970
Soyabean	105	114	107	101	97	103
Groundnuts	155	188	173	159	193	209
Copra	188	164	160	191	164	173
Palm kernels	167	149	128	163	140	151

Source: FAO: "The state of food and agriculture 1972"

(27) FAO: "Approaches to International Action on World Trade in Oilseeds, Oils and Fats", p. 77, op. cit.

The decline in EEC imports of groundnuts may also be attributed in part to the fact that its use is sometimes restricted for sanitary reasons because it may contain aflatoxin[28]. In addition, as a result of the very serious drought that has affected a number of West African countries particularly Senegal, the major producer, their capacity to export groundnuts has declined considerably. In Senegal, for instance, production has fallen from a level of about one million tons[29] in 67/68 to about 650,000 tons in 1972/73. Furthermore, oil processing capacity im many African countries has expanded considerably - in the case of Senegal, capacity is about one million tons and it is the biggest exporter of groundnut oil in the world, its share being 40% (1972)[30] of world total.

As far as the Sudan is concerned, the EEC provides the major market for its groundnuts, but the Sudan's share in total EEC imports as shown in Table 1.10 was very low until recently. Since the beginning of the 1970s, however, the Sudan'has become the world's biggest exporter of groundnuts and its share has increased sharply, replacing the other exporters in the EEC market. Among the major groundnuts exporting countries, the Sudan is moreover the only country in which production is growing. A recent study by UNCTAD/GATT International Trade Centre, summarises the situation as follows:

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(28) Aflatoxin is a type of fungus caused by humidity and believed to cause cancer.

(29) Source: Institute Italo - Africano, "Edible vegetable oils: Problems and Projections concerning Industrialisation, Commercialisation and Internal Co-operation in the South-Saharan Africa", September 1974.

(30) ibid.

Table No. 1.15

Groundnuts production trends in main producing African countries (average production in 000 tons)

Country	1963/64 67/68	1968/69 72/73	Trend
Nigeria	1080	720	erratically falling
Senegal	840	560	erratically falling
Sudan	290	350	growing erratically
Niger	210	200	declining since 1966
Gambia	105	110	static since 1965
Mali	41	55	rising since 1968
Total	2566	1995	

Source: UNCTAD/GATT, International Trade Centre, "Markets Development of Groundnuts Products" - Geneva 1974, p.2.

In the light of the situation shown above, and the facts mentioned earlier about the severe competition from soyabean, it apperas that the real threat to the Sudan's groundnuts position in the EEC now is from soyabean, rather than the competition from other exporters of groundnuts.

(b) Sesame: The Sudan is the major exporter of sesame in the world, though in terms of production, it ranks only fourth after India, China and Mexico. The share of the Sudan in total World exports of this commodity amounts to about 40%[31]. The EEC imports about 80% of its requirements of sesame from the Sudan.

(31) FAO, "Trade Year Book", 1971 - Rome.

No duties are levied on this commodity in the EEC. The AAMS countries produce very small quantities[32] of sesame and do not at present pose any threat to the Sudanese exportable surpluses of this commodity.

Among the EEC countries, Italy is the largest single consumer of sesame (about 90% of total EEC imports), followed by Belgium. The high level of consumption of this commodity in the Italian market is due to the fact that there is a legal requirement[33] that all oils consumed in that country should contain 5% of sesame oil. The following table shows the Sudan's total exports of sesame to the EEC and the shares of Italy and Belgium:

Table No. 1.16

Sudan's exports of sesame to the EEC (in £s million) and the percentage share of major buyers - averages 61/63 - 70/72

	1961-63	1964-66	1967-69	1970-72
Total EEC	3.1	6.2	6.5	6.3
% share of Italy	73	76	78	94
% share of Belgium	26	19	17	-

Source: Ministry of Finance - Khartoum, Annual "Economic Surveys"

For the Sudan, the problem of sesame, however, is not that of demand but rather of supply. Production of this commodity has

(32) About 10% of total world production - source as note (31)

(33) Magboul, F.I., "Trade and growth: the case of the Sudan 1956-69", unpublished thesis for the degree of M.Litt., University of St. Andrews, 1971.

been almost stagnant during the 1960s. The reason seems to be the difficult nature of its cultivation. Sesame needs great care during the harvesting period as any increase in temperature may disperse the seeds and make it impossible to collect. Mechanisation of the process is technically difficult and therefore the process is a labour intensive one, which makes the cost of production of sesame higher than that of other crops. Farmers therefore prefer cultivating other crops, when the prices of these other crops are relatively high. In addition, sesame production in the Sudan is more vulnerable to the hazards of weather as it is grown only in rain-fed areas, whereas other crops which are grown in both rain-fed and irrigated areas. Among the main problem of sesame production is that it is highly susceptible to a disease known as a 'blood disease'[34] for which no insecticide has been found as yet. So far, the Sudan has not faced any problems in marketing its sesame whether in the EEC or in other world markets.

(iii) Gum Arabic: Almost all world production of gum arabic is produced in Africa. All quantities produced are exported. The Sudan has a virtual monopoly in this commodity in world markets, although production in some other African countries, particularly in West Africa[35], has increased considerably during recent years. The Sudan's share in world markets is about 80%, (average of 1965-70), the remaining portion being supplied by other African countries.

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(34) Ministry of Agriculture - Khartoum, "Production of oilseeds and pulses", a report prepared by a group of experts in 1974 (unpublished).

(35) Chad for example is trying to develop the production of gum arabic further with the help of EDF and World Food Programme (WFP). EDF allocated CFA 92.3 million in 1968 for this purpose (source: UNCTAD/GATT International Trade Centre, "The Marketing of principal Soluble Gums", Geneva, July 1972 p.37.

Table No. 1.17 shows the situation:

Table No. 1.17

Exports of Gum Arabic by world major producers 1965-70 in 000 tons and percentage share of each

Country		1965	1966	1967	1968	1969	1970
Sudan:	Quantity:	57.6	55.9	51.7	50.7	49.2	47.8
	% Share :	87.0	84.6	81.3	76.4	72.9	68.6
Nigeria:	Quantity:	4.5	4.6	5.4	5.9	5.1	6.7
	% Share :	6.8	7.0	8.5	8.9	7.5	9.7
French-speaking West Africa:	Quantity:	3.7	4.9	6.0	9.6	12.6	14.9
	% Share :	5.5	7.4	9.4	14.5	18.9	21.5
Tanzania:	Quantity:	0.4	0.6	0.5	0.2	0.6	0.2
	% Share :	-	-	-	-	-	-
Total Quantity:		66.4	66.3	63.9	66.7	67.7	69.9
Total % :		100	100	100	100	100	100

Source: UNCTAD/GATT - International Trade Centre, "The Marketing of Principal Soluble Gums", Geneva July 1972

The EEC is the major market for the Sudan's gum arabic, its share being about 30% of total exports. Gum enters the EEC duty free. As regards the situation of demand in general, gum arabic has many end uses(36) and it does not facenmarketing problems normally. According to the study of the International Trade Centre, referred to in footnote (35) in this chapter, the consumption of

(36) The main branches in which it is used are textiles, adhesives, paper, paints, food industry mainly confectionary, cosmetics, pharmaceuticals, detergents, laundry products, agricultural chemistry, water treatment and cement industry. The main functions of gum in these processes are preventing crystallisation of sugar in food processing, as fixative and emulsifier for flours, thickener and stabiliser in many end uses and also in treatment of blood pressure.

water soluble gums is growing rapidly and there is scarcely any branch of industry which does not use them either directly or indirectly. Gum arabic has a special place among the various types of natural water soluble gums. Its solubility in water is extremely high, sometimes as much as 50 per cent, whereas that of the other natural gums cannot be more than about 5 per cent. Despite the fact that some synthetic gums, e.g. dextrins, are now substituting gum arabic in some end uses, particularly in adhesives and textiles, gum arabic is still the most important among all soluble gums. In terms of relative prices it is considered to be cheaper than most of its substitutes.

For the reasons discussed above, it seems that the position of the Sudan's gum in the EEC market is at present quite secure. The main problem is rather on the supply side. Production has been declining in recent years, mainly due to the expansion in mechanised agricultural schemes in the gum producing areas at the expense of gum.

(iv) Other Commodities: The main items exported from the Sudan under this group are oilseed cakes and meals, and hides and skins. The EEC is the main market for the Sudan's oilseed cakes and meals, mainly cottonseed cakes. Such cakes are cheaper by about 9-20%[37] in comparison with other types of oilseed cakes and meals. The Community's imports of this commodity have been growing rapidly due to the growth in demand for meat referred to

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(37) IMF, "International Financial Statistics", Washington 1974.

earlier. The prospects for this commodity in the Community markets appear good.

The Community also absorbs considerable quantities of hides and skins. The principal problem hindering their sales seems to be their quality. Marketing of hides and skins in the EEC is said to be hampered by difficulties of grading and standardisation; all quantities exported are in raw form.

3. Aid relations with the EEC

During the period 1960-72, the original six members of the EEC accounted for 6.5% of the total flow of external financial resources obtained by the Sudan. About 75% of the Community's financial assistance came in the form of official loans, while the remaining part was in the form of export credit facilities. Table No. 1.18 below gives a summary of the EEC countries' assistance:

Table No. 1.18

Flow of financial resources from the EEC to the Sudan during 1960-72 (in £s millions)

Country	Size of loan	Terms of loan: Grace Period	Repayment Period	Interest	% of total
Italy	9.1				31.5
Official	4.1	1 yr	12 yrs	4½%	
Export credit	5.0	1-4 yrs	5-8 "	5-6½%	
West Germany	14.8				51.2
Official	14.8	3-12 "	10-40 "	3/4-6%	
Netherlands	3.3				11.4
Official	1.0	8 "	20 "	5½%	
Export Credit	2.3	1 "	23 "	6½%	
France	1.7				5.9
Official	1.7	3 "	8 "	7.9%	
Total EEC	28.9				
All Sources	444.3				100.0
% share of EEC	6.5%				

Source: Minsitry of Finance - Khartoum, "Foreign Aid Statistics" (unpublished)

As it is clear from the above table, the share of the EEC countries in the total foreign financial flows to the Sudan was rather low. Out of the funds obtained from the Community, about one third was transferred during 1961-63, about 11% during 1965-66 and the balance during 1969-72. West Germany was the main donor in terms of quantum of assistance, followed by Italy.

An attempt has been made(38) to calculate the grant element in the official loans granted by the main donors, i.e. West Germany and Italy. This suggests an improvement in terms during the period for German loans. In our exercise, the following assumptions are made:

1. Due to the difficulty in choosing an appropriate social discount rate in developing countries, the arithmetic average of bank interest rates prevailing during the period was used. The average rate was 8%.
2. Rates of interest have been assumed to be paid annually.
3. Repayments are assumed to be made on the basis of annual equal instalments.
4. No defaults in repayment of principal or interest.

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(38) For the method of calculating the grant element, see Hawkins, E.K., "The Principles of Development Aid", Chapter 2 - Penguin Modern Economics 1970.
The formula for calculating the present value (column 5 in the table No. 1.19) is:

$$A = V (1 + i)^{-t}$$

Where A = present value
V = principal repayments + interest
i = rate of interest
t = time

Official loans from the Netherlands and France were not included in the computation as their size was small. The result of the exercise is shown in Table No. 1.19 below.

In conclusion, it could be said that aid relations between the Sudan and the EEC have not been important during the period under review. During the period, the Sudan depended to a large extent on other sources to finance its needs. These were:- IBRD, IDA, Socialist countries, and the oil-producing Arab countries.

Table No. 1.19/

Table No. 1.19

Grant element in official loans[a] obtained by the Sudan from West Germany and Italy

Country (1)	Year (2)	Size of loan in £s mill. (3)	Rate of interest (4)	Grace period (5)	Repayment period (6)	Debt service in £s mill. (7)	Present value at 8% discount rate (8)	Grant element (3)-(8) (9)	Grant element % of loan (9)÷(3) (10)
					(b)				
W. Germany	1961	6.40	4½	8	13	10.499	4.380	2.020	31.6
W. Germany	1962	2.90	6	3	10	4.466	2,548	0.352	12.1
W. Germany	1972	5.50	¾	10	40	6.800	1,153	4.347	79.0
Italy	1968	4.13	4½	1	12	5.514	3.368	0.762	18.5

Source: Calculated from figures obtained from the same source as Table No. 1.18.

Notes: (a) - No account for cost of tying aid has been taken into consideration
(b) - Exclusive of the grace period

Chapter II

Chapter II

THE CHANGING SITUATION

The purpose of this chapter is to give an account of recent developments in international economic co-operation arrangements. Particular reference will be made to the policies of the EEC towards LDCs in this respect, and the changes in the policies pursued by the Sudan until the time of its acceding to the Lomé Convention.

In recent years, economic co-operation arrangements between different countries have become an important feature of international economic relations. There has been since 1945 a noteable tendency towards the formation of sub-regional, regional and inter-regional co-operation arrangements. These arrangements take several forms, i.e. partial or full free trade areas, customs unions, common markets and economic unions.(1) The common element among all these types of arrangements is that they involve preferential trade arrangements involving free trade among the partners on the one hand, and discrimination by all or some of the partners against third countries on the other. The main rationale behind such arrangements is that larger markets are superior to smaller national markets for allocating resources more efficiently. This efficiency, it is argued, comes about from more division of labour among partners, more specialisation and greater opportunities to exploit economies of large scale. The motives behind the movement towards such

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(1) A free trade area involves dismantling trade barriers between partners and at the same time each of them is free to formulate its own policies with regard to its trade with third countries. In a customs union, besides free trade, partners unify their trade policies towards third countries, e.g. by establishing a common external tariff system. A common market involves freedom of trade, capital and labour movement, and freedom of establishment and a unified trade policy towards third countries. In an economic union all policies are harmonized.

economic groupings were various, but among them, desire to change the protectionist attitude that characterised the international economic order that started during the First World War and immensely strengthened since the Great Depression, was important. As freeing international trade completely is difficult practically, this new approach has been thought of as a second best alternative. It is generally recognised that the global type of co-operation on a non-discriminatory non-preferential basis is practically impossible. It is argued that the global approach does not take into account world-wide income distribution. Despite modifications(2) introduced in recent years to this approach, with the aim of achieving a more just and balanced international economic order, it is practically difficult to bring about radical modifications in the present structure of income distribution in the world. The "economic groupings" type of co-operation has been generated by a complex of forces, economic, political, cultural, etc., as is evident from the existing patterns of economic co-operation in the world today; North America with Latin America, West Europe with Africa, and East Europe with some socialist LDCs. In almost all international forums, the "economic groupings" type of co-operation is considered as an important vehicle for developing LDCs' economies.

The attempts made to unify Europe after World War II, as a result of which the EEC and EFTA came into being, had a great impact on the growing enthusiasm towards regional co-operation. The formation of

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(2) These modifications pertain to the differences in the "development levels" of the different countries in the world. They call for the transferring of resources through aid from the developed to the less developed countries. Special attention is also to be paid to the least developed among developing countries.

these two economic blocs has been of particular interest to the African countries. The creation of these blocs by a number of the most highly industrialised countries was expected to change the structure of world trading system and adversely affect the prospects for the exports of African countries; not only in commodities they had been exporting but also their potential exports. Until the early 1960s, most of the African countries were colonies of some members of both the EEC and EFTA. As a result, there was historically close economic, political and cultural links between them and their metropolitan powers.

Before the attainment of independence, there had not been any common development policies or strategy for development of the overseas territories. Each metropolitan power was exclusively concerned with its own dependencies.

The formation of the EEC was of particular interest to the African countries. At the time of its formation, pressure from France resulted in some of her territories being associated with the EEC and the first common development policy towards a group of LDCs by former metropolitan powers came into being. In the Treaty of Rome, a part dealing with the overseas states and territories was added - namely, Part IV on "The Association of Overseas Countries and Territories" - and an Implementation Convention was formulated. Thus former French territories were associated with the EEC before they became independent states.

After attaining independence some of these African countries opted for the continuation of their close links with the EEC in

order to maintain the privileges they had been enjoying in the markets of the EEC countries. Most of these countries were francophone countries.[3] In 1963 an Association Convention was signed between the Community and 18[4] African countries, (The Yaondé Convention), for a duration of five years. This was renewed in 1968 for another five years. The arrangement under this Convention took the form of creating separate free trade areas between the Community and each of these countries. The salient features of this convention were:

1. According duty and levy free access of products originating in the Associated African States and Madagascar (AASM) into the Community's markets (Article 2), with the exception of those commodities that come under the Community's Common Agicultural Policy (CAP). The AASM countries on their part were to reciprocate by granting the same treatment to EEC countries by virtue of Article (3) which stated that:

"Products originating in the Community shall be imported into each associated state free of customs duties and charges having equivalent effect."

The reciprocity principle was conditional in order to comply with the rules of GATT. In exceptional cases AASM were allowed to introduce protection measures after consultation with the Community, e.g. in case of development needs (Article 3) and balance

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(3) Privileges enjoyed by these countries in the French market included preferential tariffs, guaranteed prices for their exports, which were higher than world prices, 'surprix', direct subsidies to producers and privileges under a system of 'pairing' under which authorisation for a French importer to import non-overseas products was made contingent on his agreeing to purchase given amounts of the same goods from overseas producers, (see Lawrence, R. - "Primary Products, Preferences and Economic Welfare: The EEC and Africa" in International Economic Integration, footnote p. 364, Penguin Economics, ed. Robson, P., Middlesex, England 1972.

(4) In 1972 the number rose to 19 when Mauritius joined the Yaoundé Convention.

of payments difficulties (Article 7).

In practice, each AASM state had a two column tariff system, one for customs duties levied on imports from third countries and the other for fiscal duties (lower than the customs duties) levied on imports originating in the Community.

2. Provision was also made for financial and technical assistance to be extended by the Community to AASM states.

3. The Convention also embodied provisions relating to the institutions of the Convention. These were the Association Council, the Parliamentary Conference of Association and the Court of Arbitration of Association.

Yaounde I included a "Declaration of Intent", offering three alternative association arrangements to countries with similar economic and production structure to those of AASM. These were:

1. Adhering to the Yaoundé Convention
2. Concluding a special agreement with the EEC
3. Concluding a trade agreement with the EEC.

Some of the African countries, namely the countries of the East African Common Market, (Kenya, Uganda and Tanzania), and Nigeria took advantage of this "Declaration", and negotiated special agreements with the Community, namely the Arusha Convention, (1968), and Lagos Convention, (1966)(5) respectively, rather than accede to Yaoundé. Compared with the privileges offered in Yaoundé,

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(5) The Lagos Convention was not ratified at all for some political reasons, (French attitude towards Biafra during the Nigerian Civil War).

the privileges offered to these countries were limited and did not include financial and technical aid. These countries' closer links with the EEC came about mainly as a result of the U.K.'s intentions then to join the Community. Their fears were that U.K. membership in the EEC would deprive them automatically from the privileges they had been enjoying in U.K. markets under the Commonwealth preferential system. On its accession, the U.K. would adopt the Common External Tariff (CET) of the Community. In the absence of special arrangements, African Commonwealth products which used to enter the U.K. duty free, would then be subject to the CET. Consequently it might be expected that AASM exports would expand at the expense of those of Commonwealth African countries in the British market.

As far as other countries are concerned, the possibilities existed of negotiating agreements with the Community by virtue of Article (238) of the Treaty of Rome. This Article provides that:

"The Community may conclude with a third state, a union of states or international organisations, agreements establishing an association involving reciprocal rights and obligations, common action and special procedures."

Some Mediterranean countries negotiated trade agreements under this article, namely Lebanon, Israel, and the Maghreb countries, (Algeria, Morocco and Tunisia), Some European countries also negotiated trade agreements under this article, (Malta, Cyprus, Spain and Yugoslavia), whereas others, (Greece and Turkey), negotiated special association agreements involving gradual harmonization of policies with a view to their ultimately becoming members

of the Community at some distant future date.

At the time of the enlargement of the Community with the entry of Britain, Ireland and Denmark in 1971, a protocol was attached to the "Act of Accession" - (Protocal 22), which offered the same three options referred to above to certain Commonwealth countries in Africa, the Caribbean, and the Indian and Pacific Oceans (ACP states).

Subsequently a memorandum(6) by the Commission of the Community adumbrated a new approach to the future co-operation arrangement between the EEC and these countries. In this document, the Commission tried to draw up a comprehensive development co-operation policy and suggested a number of innovations to be incorporated in the new arrangement (details will be discussed in subsequent chapters).

The memorandum contained a suggestion enabling countries with similar economic structures to the ACP countries to negotiate for association. The negotiations to produce a new Convention covering this wider group and embodying features of the Convention's new approach started in mid 1973, (18 months before the expiry date of Yaoundé II), and ended by the end of February 1975 when the so-called Lomé Convention was finally signed.

The experience of the Sudan in the realm of regional economic co-operation has been different from that of other African countries

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(6) EEC Commission, "The future relations between the Community, the present AASM states and the countries in Africa, the Caribbean, the Indian and the Pacific Oceans referred to in Protocol 22 to the Act of Accession", com. 73-500 fin. Brussels.

In contrast to the post-independence interest of many other African countries in this type of co-operation, the Sudan showed little interest in this kind of arrangement. Indeed, about the time when elsewhere, independent African countries were confirming their interest in regional co-operation arrangements, resting on free trade areas and customs unions, the long experience of the Sudan with the same type of co-operation was being brought to an end. The Sudan's long experience with such arrangements extended from 1870 to 1957. In the 1870s the Ottoman Empire(7) formed a customs union embracing all countries of the Middle East. In 1914, major alterations(8) were introduced in this arrangement whereby a seperate customs union was formed between Egypt and the Sudan. This customs union continued until the end of the Anglo-Egyptian Condominium era (1899-1956). In the agreement of 1899 concluded between Britain and Egypt about the Sudan, Article (7)(9) of this agreement stipulated the trading arrangement between the Sudan and Egypt as follows:

"Imports duties on entering the Sudan shall not be payable on goods coming from Egyptian territory. Such duties may, however, be levied on goods coming from elsewhere than Egyptian territory; but in the case of goods entering the Sudan at Suakin, or any other port on the Red Sea littoral, they shall not exceed the corresponding duties for the time being leviable on goods entering Egypt from abroad."

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(7) See Musrey, A., "An Arab Common Market", Praeger (publishers) - New York 1969.

(8) These alterations led to imposing 8% tariffs, raised later to 11% on imports from the rest of the Ottoman Empire (source ibid.).

(9) Abbas, M., "The Sudan Question", Faber & Faber Ltd - London 1951.

Imports by Egypt from the Sudan also had free access into the Egyptian market. According to the Sudan's trade figures of the 1920s about one fifth of the Sudan's total imports[10] and one tenth of its total exports benefitted from the free access privilage of the Agreement. Although legally the basis of this arrangement was a customs union, in practice it was closer to a common market arrangement as it involved beside free trade, free movement of capital and labour, freedom of establishment as well as a common currency.

This arrangement continued until 1957 when the Sudan opted to withdraw. This was followed by a revision of the tariff structure then prevailing. According to a report drawn up by a Committee formed for this purpose in March 1958, the reasons for opting for the break off can be summarised as follows:[11]

1. The existing tariff structure would hamper industrialisation in the Sudan as, due to the relatively broader industrial base in Egypt, Egypt would be more attractive as far as the location of industries is concerned. (In other words, there had been fears of polarisation and back-wash effects and of an unfair distribution of industries in the region).

2. Tariffs constitute a big portion of government revenue and as the existing tariffs are very low, they should be raised so as to meet the financial requirements of current and developing expenditure.

In the light of these recommendations, the customs union arrangement was replaced by a preferential tariff arrangement whereby each

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(10) Musrey, A., op. cit. p. 15.

(11) Source: Central Office of Information, "History of tariff relations between the Republic of Sudan and the U.A.R." - Khartoum 1958 (in Arabic). Copy deposited in Sudan Section, Library of the University of Khartoum.

country was to accord tariff preferences to the other. This arrangement has continued to the present day. The Sudan's tariff structure is a two column tariff system giving preferences[12] to goods coming from Egypt against other goods, coming from all other sources. Egypt extends the same treatment to the Sudanese products also. This arrangement has been supplemented by a payments arrangementsaccording to which accounts are settled in a unit of account (u.a.) known as "account sterling". This u.a. has the same parity as that of the sterling pound but is not convertible to other currencies.

Other legacies of the previous close links with Egypt relate mainly to the fields of education and irrigation. For instance, in the field of education, a number of schools in the Sudan[13] are Egyptian schools run by the "Egyptian Education Mission in the Sudan". In addition, Egypt assists the Sudan by providing it with a number of teachers and lecturers every year as well as scholarships to Sudanese students. In the field of irrigation, Nile water utilisation is governed by the 1936 Agreement[14] between the two countries. According to this agreement any project in this field in either country is established only after mutual agreement between both countries.

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(12) The nominal tariff preferences range between 20% to 60% ad valorem below most favoured nation tariff levels on most of the products imported from Egypt. However, as the share of Egypt in the Sudan's total imports is small - about 5% on average - the preferences are not very significant.

(13) Now about 11,000 Sudanese students follow courses in these schools and there are about 400 Egyptian teachers in the Sudan now - source: Memo - A Weekly Bulletin of News and Experts' views from the oil scale. Vol.2 No.34, Beirut Aug. 1975.

(14) In accordance with this agreement, the Agreement of 1959 concerning the construction of the High Dam at Aswan was concluded.

Some few years before the break-off from the customs and monetary union with Egypt, the special trading arrangements between the Sudan and the United Kingdom had come to an end as well. Being one of the Condominium countries, the Sudan[15] used to enjoy the Commonwealth tariff preferences in the United Kingdom market. The Sudan was barred by the 1899 Agreement between the United Kingdom and Egypt, referred to earlier, from reciprocating by extending reverse tariff preferences to the United Kingdom. But preferences of a different form were extended by the Sudan to the U.K. These preferences took the form of selling cotton to the U.K. at concessional prices. Fabunmi, describing the nature of these preferences and the way they came to an end, says:[16]

"It would seem that, because the Sudan staples help to run the wheels of Lancashire industry, Britain might continue to be the Sudan's chief customer, but she appears disinclined to pay competitive prices. According to the 1954 Commission Report of the Raw Cotton Commission, the Commission had in previous years bought Sudan cotton by private negotiations but after arranging one such purchase, further private treaty transactions became impracticable as the Sudan authorities decided to offer the remainder of the crop at a series of auctions."

So by 1953, the U.K. was to pay the competitive prices of the open market and thus the special arrangement of selling cotton to her at concessional prices was brought to an end.

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(15) See Russell, R. "Imperial Preference: Its Development and Effects" - Empire Economic Union, 1947 p.149.

(16) Fabunmi, L.A. "The Sudan in the Anglo-Egyptian Relations" Longmans Green 1960, p.179/180.

At the time of independence, a widely held view was that the Sudan's most likely choice was to join the British Commonwealth. This possibility was open to the Sudan after the Agreement[17] signed between the British and Egyptian governments on 12 February 1953 concerning self-government and self-determination for the Sudan.

In the event, however, the Sudan did not become a member of the Commonwealth and could therefore no longer enjoy Commonwealth preferences. Actually, among the major Sudanese export commodities, only groundnuts[18] enjoyed these preferences. The other main commodities, namely cotton and gum arabic from all sources entered the U.K. duty free.

At a time when many African countries sought closer links with the EEC primarily to retain the privileges they had been enjoying in the EEC markets, the Sudan's approach was different. In the case of the Sudan, the political aspect was dominant. There were various political obstacles hindering the Sudan from seeking close links with any economic grouping, particularly the EEC at that time. The general feeling may be summarised as follows:

1. The Sudan had been divided in itself as a result of the civil war which started in 1955 between the North and the South. It therefore seemed that entering into economic co-operation arrangements

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(17) ibid. Footnote 11.

(18) The U.K.'s tariff rate on non-Commonwealth groundnuts was 10% ad valorem (source: Russell, R. op. cit.). Groundnuts constituted only about 6% of total sudanese exports at that time.

with other countries before attaining internal political integration and unity would jeopardize internal security.

2. Due to its unique geographical position, the Sudan is a 'bridge' linking Africa with the Arab world. The demographic, ethical, social and cultural situation in the Sudan is an Afro-Arab mix. Any attempt made to join any economic grouping entails careful assessment and balancing of the attitudes of both African and Arab countries towards the economic grouping involved.

With respect to the political obstacles that made the Sudan disinclined to seek closer links with the EEC, apart from the two principal factors mentioned above, there were others. Firstly, the Sudan shared the view, along with some African countries such as Ghana and Guinea, which were critical to the association arrangement between the EEC and AASM countries, that such an arrangement conflicts with the objectives of African unity. It was seen as involving a surrender of part of the sovereignty of the newly independent countries to the former metropolitan powers. Secondly, the Sudan shared the unfriendly attitude of the Arab countries towards most of the countries of the Community, due to their support for Israel.

Beside these political factors, there were also economic reasons for the disinclination towards entering into an economic co-operation arrangement with the EEC. The high confidence in ELS cotton's (the 'white gold' as it was christened then), position in world markets was one of these reasons. This confidence in cotton is clear from many official statements made by the Sudanese authorities

at the time. For instance, in the "Economic Survey" of the Ministry of Finance for 1958, the following comment was made on the future effects of the formation of the EEC on the Sudan's cotton position:[19]

"Cotton, especially the type produced in the Sudan may not suffer because normally it is not subject to any duty or quota system."

The "Economic Survey" of the following year also maintained that:

"It looks as if the improvement in world demand for our cotton will be sustained."

The confidence in ELS cotton is also clearly manifested in that almost all the efforts for development were fodussed on expanding its production. The expansion of the Gezira Scheme by more than one million feddans[20] - known as "The Managil Extension" - during 1958/59-1962/63 primarily for the production of this type of cotton clearly indicates confidence in prospects for this commodity. It was also seen that none of the main export items, except groundnuts which constituted only about 6% of total exports, was facing a real threat from those countries which had established closer links with the EEC.

Along with the expected gains in the field of trade, the African countries which sought to maintain close links with the EEC were, of course, motivated by the aid given to them by the EEC. For a few African countries, the Sudan amongst them, having closer links with the EEC with a view to benefiting from its aid, was not acceptable on political grounds. It was the general contention in these

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(19) Ministry of Finance - Khartoum, "Economic Survey" 1958 and 1959

(20) One feddan = 1.038 acres.

countries that accepting aid from the EEC would have political repercussions and a greater involvement with these countries might result in reduced effective sovereignty. The association arrangement was moreover seen as an arrangement between some weak developing countries and six powerful industrial countries. This seemed to provide a basis for colonial exploitation in a new form. Okigbo, for example, puts the position as follows:(21)

"Some African states believed that association with the Community made the associate states subject to political manipulation by the European powers. They connected this manipulation with the political objectives of the aid from the Development Fund (i.e. the EDF)(22)".

So the case of the Sudan, this poltical aspect of the matter was made more complicated by the facts mentioned above about Euro-Arab relations. Any close link with the EEC would have, no doubt, resulted in the loss of grants(23) and aid the Sudan was getting from the Arab countries. With regard to aid from non-Arab countries, moreover, the tendency in the Sudan was towards diversifying aid sources in accordance with its non-aligned foreign policy.. An indication of this is that at the time of drawing up its first ten year plan of 1961/62-1970/71, the Sudan concluded loan agreements

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(21) Okigbo, P.N. "Africa and the Common Market" Longmans - Evanston 1968, p.91.

(22) Author's italics.

(23) On average about one third (31%) of total aid and grants that the Sudan received during 1960-74 came from the Arab countries mainly Kuwait (source: Ministry of Finance - Khartoum, "Foreign Aid and Grants Statistics" (unpublished).

not only with Western countries such as the USA and West Germany, but also with the countries of the Eastern bloc like the USSR and Yugoslavia.

Finally, it has been mentioned earlier that the main objective of those countries which established closer links with the EEC was to obtain external resources through trade and aid to implement their development targets and repay their external debts. The Sudan, however, was not initially suffering from external financial constraints. The situation as stated in the Ten Year Plan of 1961/62-1970/71[24] was that:

"The Sudan managed in the past to export sufficiently in order to cover its imports requirements. As a result, the foreign debt has remained insignificant. The Sudan entered the Ten Year Plan with foreign resources amounting to £60.8 million[25]. These resources will provide a very necessary cushion to cope with any short term fluctuations in foreign exchange income and the economy at large."

The political and economic facts discussed above are the main reasons behind the disinclination of the Sudan towards participation in economic groupings, particularly the EEC. Instead, the Sudan opted for pursuing a global policy in its external relations and

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(24) Ministry of Finance - Khartoum "The Ten Year Plan for Economic and Social Development for 1961/62-1970/71" p.18.

(25) This amount was sufficient to cover more than one year's import requirements (taking the average of imports in 1958, 1959 and 1960 - see Appendix II on Sudan exports and imports during 1958-1972).

and chose to trade with all countries (except Egypt) on a non-discriminatory, non-preferential basis. This global economic policy lasted from 1953 until 1965 when it was replaced by a new one. This new policy aimed at directing importation to certain countries - a policy known as "Directing of Importation Policy" (DIP). The essence of it was to strengthen economic relations with the Soviet bloc[26]. The main rationale behind introducing this policy was to find new outlets for ELS cotton which had lost its special position in world markets since the mid 1960s. The introduction of this policy was motivated by the position of cotton on the one side and by the apparent attractiveness of the co-operation arrangement systems of the Socialist countries. This attractiveness, as Ohlin puts it, is due to the fact that:

"Soviet loans are repayable in local currency or in commodities and the Soviet assistance is closely linked to trade. From the balance of payments point of view, this aspect is highly attractive to both parties. Instead of buying raw materials on the European markets with valuable foreign exchange, the Soviet bloc can deal directly with the primary producing countries. The LDCs import equipment from the bloc countries and avoid the foreign exchange difficulties they face with Western economies... The Soviet Union has often been able to play the role of 'buyer of last resort' in emergencies when world markets have failed or political

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(26) Importation was also directed to India and Egypt but co-operation with them was only confined to the field of trade, mainly consumer products.

developments have caused serious difficulties[27].

In addition to the above, co-operation with this bloc covers almost all fields of co-operation, trade, aid, technical assistance, etc., i.e. the same areas covered by the EEC-AASM arrangement.

In reality DIP created a system of preferential treatment for the countries to which importation was directed and discrimination against other sources, the chief among them being the EEC countries. Despite the fact that no tariff preferences were involved in this policy, the arrangement was de facto preferential and discriminatory. The instruments used were of a non-tariff nature, mainly administrative. For instance, imports from the Socialist countries were put under the open general licence, whereas imports from other sources were under quota systems.

Beside the drastic change in the demand for ELS cotton discussed in Chapter I, the position of Sudanese cotton was also complicated by factors on the supply side. By the mid 1960s, the main projects of the Ten Year Plan had started production. To dispose of the huge amounts of ELS cotton forthcoming, the indicative trade arrangements system the Sudan originally had with the Socialist countries, whereby no specific targets were fixed for commodities to be exchanged, was replaced by arrangements with specific targets. The ultimate result was to tie exports and imports with each other and also to tie Sudanese imports to the Soviet bloc sources.

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(27) Ohlin, G. "The Evaluation of Aid Doctrine" in "Foreign Aid" ed. Bhagwati, J. and Eckhaus, R.S., Penguin Economic Readings, pp.58/59 - Middlesex, England.

By 1970/71, this thrust of policy was emphasised explicitly in the Five Year Plan as one of the main national objectives, in the following terms:

"In the sphere of foreign economic relations, apart from foreign trade development, the plan specifies measures for furthering economic, scientific, technical and business relations with the Socialist, Arab and other friendly countries."(28)

So at the time when many African countries were seeking a formal link with the EEC, the Sudan was trying to strengthen its economic relations with the Socialist countries.(29)

The new policy did not, however, last long. In 1971/72, an overall appraisal of all economic policies was made and new development stratagies and policies were introduced. The deteriorating situation of ELS cotton together with the inability of the transport system to cope with the expansion in other production sectors were reasons behind the revision of the whole Five Year Plan. Among the major modifications were:

1. Stopping any expansion in ELS cotton and instead expanding the production of medium staple cotton.

2. Expanding the production of other crops, mainly wheat, in the Gezira Scheme at the expense(30) of ELS cotton.

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(28) Source: Ministry of Planning - Khartoum "The Five Year Plan for Economic and Social Development" 1970.

(29) Sudan of course was not the only African country to follow such an approach, but it was certainly the largest and most important of those to do so.

(30) In 1974/75, for instance, the acreage under ELS cotton was almost half the average acreage that used to be under ELS cotton, i.e. from about 800,000 feddans to 400,000 (source: "Economic Survey of 1972" - Khartoum.

3. Developing the infra-structure system, mainly the road network.

4. Basing industrialisation on agro-industrial projects for which raw materials are available in the Sudan.

These modifications were embodied in an "Interim Action Programme"(31). This document virtually constitutes the current development plan. In the foreign trade field, it was envisaged that beside reducing the production of ELS cotton, other products were to be added to the export list, principally sugar and textiles. The plans for those commodities will be discussed in the last chapter.

In the field of economic co-operation, major modifications were also envisaged. The new policy in this respects aims at:

"Strengthening economic relations with international and regional groupings such as the Arab Common Market, the East African Common Market and the EEC."(32)

This change in attitude towards regional groupings in general and the EEC in particular came about mainly as a result of developments in the political sphere, but has also been justified on economic grounds. The shift from the Socialist countries to the EEC has been justified because the former countries are no longer major markets for Sudanese ELS cotton and indeed, they

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(31) Sudanese Socialist Union "Interim Action Programme" - Khartoum 1972.

(32) ibid.

actually re-export[33] it at concessional prices to some of the Sudan's traditional markets. It was further argued that the bilateral arrangements which were governing economic relations between the Sudan and these countries were no longer helpful as they used to be. It seems that the sharp rise in the prices of ELS cotton since 1972, following the sudden increase in the prices of some raw materials in world markets, also played a big role in inducing the Sudanese authorities to modify their trade policy. The impact of this will be seen in the last chapter.

As regards the factors influencing the Sudan's attitude towards economic groupings in general and the EEC in particular, there have been major changes during recent years. Firstly, since 1972 national unity has been achieved and the war between the North and South which lasted for 17 years[34] was brought to an end. Secondly, the Euro-Arab relationship has changed considerably and a friendly[35] attitude towards the EEC has grown up. Thirdly, on the African scene, the differences in opinion amongst the African countries about 'association' have at last been resolved. Eligible African countries for joining the new Convention united when negotiating with the EEC and all of them opted for association, i.e. the first option of Protocol (22).

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(33) In 1971, for instance, it has been claimed that the USSR re-exported 100,000 bales (about one third of its total purchases that year) to India (source: Ministry of National Economy - Khartoum).

(34) In March 1972 a peace agreement was reached between the North and South in Addis Ababa whereby partial self-government was given to the South.

(35) A dialogue is going on between the two groups of countries to establish close political and economic relations between them.

So, for the Sudan, the main obstacles which it was facing since independence no longer exist. In addition, the Sudan has launched an ambitious development programme, which aims at changing the structure of the whole economy, and lessening the dependence on ELS cotton, the situation of which has for a long time been the main determining factor for the policies that have been pursued.

Chapter III

Chapter III

THE EFFECTS OF PAST POLICIES ON THE SUDAN'S TRADE AND AID WITH SPECIAL REFERENCE TO SUDAN-EEC RELATIONS

In the previous chapter, the actual situation before the Lomé Convention was discussed. In this chapter, an attempt will be made to assess the effects of the policies pursued by the Sudan during 1958-71 on its trade and aid, and to gauge what the situation might have been, had the Sudan associated with the EEC under the previous conventions. The chapter falls into two parts, the first dealing with the global trade era and the second with the DIP era.

A. The global era: (1958-1964)

In the field of trade, as seen in chapter I, none of the Sudanese export items, except groundnuts, was facing any real threat in EEC markets during the global era. As for the main export item, namely ELS cotton, it enjoyed a special position in the world markets because it was used in specialised end uses and the technological progress in textile machinery had not been as fast as was the case after the mid 1960s. Because ELS cotton was fetching high prices in world markets, the Sudan opted for bringing to an end the special arrangements with the U.K. whereby concessional prices were offered to the latter. In addition, because of the high confidence in the position of this commodity in world markets, its production was increased substantially during this era. The AASM countries, as they were not producing this type of cotton, were not posing any threat to the Sudan in the EEC markets then. As regards the other main products, namely sesame and gum arabic, the Sudan had (and still has) a virtual

monopoly in the world markets and no great problem is faced usually in finding outlets for them in world markets. So as far as the then existing pattern of trade was concerned, association with the EEC under the previous conventions was not likely to result in substantial benefits to the Sudan at that time. The global policy pursued after independence and until the mid 1960s was, in the writer's view, the most appropriate policy to be pursued. It might, no doubt, be argued that as the Sudan's exports were mainly primary products, this efficiency in resource allocation, as was the case with the exports of a great number of LDCs which specialise in the exportation of such products, could have led to the deterioration in the terms of the Sudan's trade; the so-called 'Prebisch Effect'(1). Prebisch asserts that because price elasticity of the primary products is generally lower than the elasticity of the manufactured goods, and because differences in the operation of the labour market in LDCs and advanced countries give rise to stickiness of the prices of the manufactures, there is a long run tendency for the prices of primary products to deteriorate relative to the prices of manufactured goods. Additionally technological progress in the DCs which had led to an increasing substitution of synthetics for natural products and also to a reduction in the raw materials content of finished goods reinforced this result. He maintains that more specialisation in the primary products and consequently more efficiency in their production would be to the detriment of LDCs like the Sudan, because the benefits of more specialisation and efficiency will be reaped by the DCs. Therefore he advocates, among other things, that DCs like the EEC states should accord free access privilege to the primary products of the LDCs. In the case of the Sudan, however, there had not been any evidence of the deterioration of its terms of trade during the global era. All its exports, except groundnuts, which constituted a very small percentage of total exports, were...

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(1) See Prebisch, P. "Towards a New Trade Policy for Development" U.N. 1964.

enjoying free access to the markets of the EEC, the major markets for Sudanese products. Secondly, the Terms of trade of the Sudan did not show such tendency during this era as the figures of the table below show:

Table No. 3.1

The Sudan's terms of trade during the global era (1953=100)

Year	Terms of Trade $\frac{\text{Index of export prices}}{\text{Index of import prices}}$
1960	111
1961	117
1962	109
1963	99
1964	112
1965	125

Source: Ministry of Finance -Khartoum, Annual "Economic Survey"

Since the Sudan was not facing great difficulties in marketing its products, the relatively high level of foreign resources, referred to in Chapter II, and the favourable terms of trade of the above table being evidence for that, association with the EEC was not likely to result in bringing significant benefits to the then existing pattern of Sudanese exports.

As regards aid, it has been mentioned earlier that had the Sudan associated with the EEC under the previous conventions, this would probably have resulted in the loss of the aid and grants the Sudan was receiving from the Arab countries. Aid provided by these

countries was bigger in size and more valuable than aid which could have been obtained from the EEC if the Sudan had associated with it. With regard to the size of aid, it did not seem likely that the Sudan would have got from the EEC more than what it got from the Arab countries. No detailed data is available on aid provided by the EEC to associates and on that received from the Arab world by the Sudan. The data to hand only shows the total amounts of aid obtained over a long period, roughly from the date of the first association convention up to the end of 1974, in the case of both the Sudan and the AASM countries. So our comparisons will be based on this data. Comparison of the amount of aid obtained by the AASM states from the EEC and that obtained by the Sudan from the Arab countries during the period mentioned above, shows that the amount received by the Sudan was nearly three times as much as the major recipient countries among the AASM states received from the EEC. Whereas the Sudan received about £825 million(2) from the Arab countries during this period, the major recipient among the AASM states, namely Madagascar, received £187 million(3) of EEC aid. The amount the Sudan received also amounted to more than that received by the three major recipient countries of the AASM states, namely Madagascar,(4) Senegal and Ivory Coast, from the EEC. The total amount received by these three countries was £511 million during the period mentioned. Thus it does not seem likely that the Sudan would have got the amount of aid obtained from the Arab countries from the EEC, had it joined the EEC under the previous conventions.

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(2) Source: Ministry of Finance - Khartoum "Foreign Aid and Grants Statistics" op. cit. (Table 1.18)

(3) Source: European Community-Africa-Caribbean-Pacific "The Courier" No. 36 - March/April 1976, p.44/45.

(4) Total population of these three countries is approximately equal to that of the Sudan.

As far as the value of aid was concerned, Arab aid to the Sudan was given on easy terms[5]. However, the easiness of the terms of aid depends on the proportion of the grant element (which depends in turn on the rate of interest, the grace and repayment periods) in the total amount of aid. But calculating comparable grant elements in aid provided by the EEC to AASM countries and that provided by the Arab countries to the Sudan is difficult. This difficulty arises from the fact that in calculating the grant element, the cost of tying aid should be taken into account. In practice, however, it is generally agreed that it is quite difficult to get data on the cost of tying aid. In the case under consideration here, aid provided by the Arab countries to the Sudan had the advantage over the EEC aid in that there was no cost of tying aid involved and the Sudan was free to use it to purchase from the cheapest sources.

However, judging from the easiness of the terms of aid provided by the Arab countries to the Sudan, the absence of the cost of tying, and the size of the aid referred to above, it could be said that the real value of aid received by the Sudan from the Arab countries during the global era was higher than the value of aid it would have received from the EEC had it joined the previous conventions.

So in both fields, trade and aid, it was not likely that the Sudan would have benefited much from joining the previous conventions.

B.(i) The impact of economic co-operation with the Socialist countries (DIP) on Sudan-EEC trade relations (1965-1971)

In this section, an attempt will be made to see to what extent Sudan-EEC trade relations were affected by DIP by means of comparing the situation before and after the introduction of this policy, i.e. 1958-1964 and 1965-1971. These two periods roughly and respectively cover the time when:

1. ELS cotton's position in world markets was safe (1958-64), and when other types of cotton and synthetics started displacing it (1965-71).

2. Association with the EEC was confined to the AASM only and the time when other countries with similar economic structures to those of the AASM states started approaching the EEC with a view to establishing closer links with it.

The main concern here is the shift in the Sudan's trade from the EEC to the Socialist countries and the impact of that on the Sudanese economy. In the case of imports the method adopted, following a similar but not an identical approach followed by Balassa in measuring trade diversion trade creation effects of free trade areas and customs unions, is measuring the income elasticity of imports from both areas. The same calculations were made for imports from the rest of the world and 'All Agreement Countries', which include Egypt and India besides the Socialist countries for the sake of comparison. The difference in the elasticity coefficients between the two periods may, on certain assumptions, be taken to indicate the magnitude of the shift due to DIP.

Computations have been made by using log-linear regression equations in correlating the Sudan's GNP with the imports from the

different sources mentioned above. The equation used is:

$$\text{Log } M = \log a + b \log y$$

$$\eta = \frac{d \log y}{d \log m} = b$$

where M = imports

Y = GNP of the Sudan at current prices

η = income elasticity of imports

a and b = constants

It should be mentioned here that the results of the computations are indicative and do not give the exact magnitude of the shift. Also the statistical reliability of the estimates cannot be tested. It is assumed that DIP was the sole factor causing the shift.

The results of the computation are portrayed in Table No. 3.2 below:

Table No. 3.2/

Table No. 322

Income elasticity of imports equations for 1958-64 and 1965-71

Region aid period	Regression equations
1. Total imports:	
1958-64	$\log M = -3.69 + 2.14 \log y$
1965-71	$\log M = -1.72 + 1.33 \log y$
2. (a) EEC (Six):	
1958-64	$\log M = -4.79 + 2.28 \log y$
1965-71	$\log M = -1.85 + 1.1 \log y$
(b) EEC (Nine):	
1958-64	$\log M = -3.07 + 1.77 \log y$
1965-71	$\log M = +0.49 + 0.37 \log y$
3. Socialist countries:	
1958-64	$\log M = -9.3 + 3.86 \log y$
1965-71	$\log M = -5.9 + 2.56 \log y$
4. All agreement countries:	
1958-64	$\log M = +2.46 + 1.37 \log y$
1965-71	$\log M = -6.31 + 2.78 \log y$
5. Rest of the world:	
1958-64	$\log M = -5.3 + 2.6 \log y$
1965-71	$\log M = +1.9 + 0.26 \log y$

Source: calculated from figures of imports and GNP taken from the annual Economic Surveys of the Ministry of Finance - Khartoum.

Notes: (1) EEC (Nine) includes only the U.K. besides the 'Six'. The Sudan's trade with both Ireland and Denmark is insignificant.
(2) All Agreement Countries are the Socialist countries, Egypt and India.

Figures in the above table reveal the following:

1. The responsiveness of total imports to GNP declined considerably during the second period compared with that of the first period under review, the drop being about 38%. The explanation is that most of the main projects of the Ten Year Plan were completed by the end of the first period and consequently there was a big drop in imports during the second period. The critical foreign exchange position caused by the factors mentioned about ELS cotton is also another probable reason for this phenomenon.

2. As regards the different regions, with the exception of "All Agreement Countries", the coefficients of elasticity followed a similar pattern to that of total imports but at varying degrees.

3. For the EEC (Six) the drop in the elasticity coefficient was greater than that of total imports (by 52%) whereas in the case of the Enlarged Community the drop was very high (79%).

4. With regard to the Socialist countries, the drop was the lowest (34%).

5. The drop in the case of "Rest of the world" was the highest among all regions (by 90%).

At the outset, it must be mentioned that the main empirical difficulty in such studies lies in distinguishibg between that

part of trade shifted from a particular source to another, and between the sources from which the shift has taken place, e.g. which part from the rest of the world, and which from the EEC. Such measures therefore only indicate the general trend of the shift rather than its exact magnitude. What the results in the above table suggest is that there has been a shift to the Socialist countries from both the EEC and the rest of the world. They also suggest that there has been a shift within the Enlarged Community itself, i.e. from the U.K. to the other members of the EEC. But as the EEC was the main supplier until the mid 1960s (see Table No. 2.6), supplying the Sudan with almost half its import requirements, it could be concluded that the biggest shift was from the EEC to the Socialist countries.

Disaggregating imports into their major categories and the computation of the elasticity coefficients in the same way would have given a better picture. But owing to the lack of suitable and complete data for the period under review, such computation proved impracticable. However, a less refined method which utilises the changes in the percentage shares of each region in the main categories of imports for which appropriate data is available will be employed. Table No. 3.3 gives information about three major categories, machinery and equipment, vehicles and transport equipment, and textiles. These groups of commodities constitute on average from 40% to 45% of total imports of the Sudan. The shifts depicted in this table reflect, of course, not only the influence of DIP but also that of other factors. However, for a variety of reasons discussed elsewhere, it seems reasonable to conclude that the major influence was that of DIP.

Table No. 3.3.

Percentage share of imports into the Sudan by region and commodity categories (averages)

Region and commodity categories	1960-62	1963-65	1966-68	1969-71
1. Machinery and equipment:				
EEC (Six)	26	30	18	27
EEC (Nine)	73	73	62	59
Socialist countries	4	5	10	15
Others	23	22	28	27
2. Vehicles and transport equipment:				
EEC (Six)	17	27	18	12
EEC (Nine)	76	77	76	64
Socialist countries	4	2	4	4
Others	20	21	20	32
3. Textiles:				
EEC (Six)	4	4	4	-
EEC (Nine)	10	9	6	1
Socialist countries	17	20	36	45
Others	73	71	58	54

Source: As for Table No. 3.1.

Notes : In other main import items such as medicaments and pharmaceutical products, wheat and wheat flour, there was no significant shift and the EEC has remained the main supplier while in the case of fertilizers the Socialist countries were the main suppliers during both periods.

The figures of Table No. 3.2 indicate that the shift from the EEC to the Socialist countries took place mainly in machinery and equipment and to some extent in textiles, but that no major shift occurred with vehicles and transport equipment. Among the three groups, machinery and equipment is of particular importance for its potential impact on development.

In this connection, it is noteworthy that the Sudan had considerable difficulty in assimilating the technology of the Socialist countries. This revealed itself in many ways. In the aid field, for instance, though many agreements were concluded with these countries, actual utilization of aid was very poor compared to that from the EEC countries. The following table shows the situation:

Table No. 3.4

Utilization of aid granted by Socialist countries compared to that of the EEC countries (in percentages) as at 30.9.74

Donor country	Year of aid	Sector of utilization	% of utilization
A. Socialist countries:			
USSR	1961	Industry and social services	74%
USSR	1963	Industry	100%
USSR	1969	Industry and Geology	82%
Czechoslovakia	1965	Misc.	Nil
Bulgaria	1967	Industry	1%
GDR	1969	Misc.	47%
B. EEC countries:			
German Fed. Rep.	1961	Irrigation	100%
German Fed. Rep.	1962	Industry	100%
Netherlands	1965	Transport	100%
Italy	1969	Transport	100%

Source: Ministry of Finance - Khartoum (unpublished).

Comparisons of the utilised capacities in some of the existing projects by countries of both blocs also show a similar pattern. Table No. 3.5 shows the situation in the main industries:

Table No. 3.5/

Table No. 3.5

Utilized capacities in main manufacturing industries in the Sudan

Name of project	Source of machinery	% of capacity utilized
Babanosa Milk Factory	USSR	10.6 (1970/71)
Karima Date Factory	USSR	25.7 (1970/71)
Wau Vegetable and Fruit Canning Factory	USSR	N.A.
Kassala Onion Dehydrating Factory	USSR	9.0 (1969/70)
Guneid Sugar Factory	W. Germany	61.8 (1970/71)
Khashm El Girba Sugar Factory	W. Germany	100.0 (1969/70)
Aroma Cardboard Factory	Yugoslavia	scrapped since 1970

Source: Ministry of Finance - Khartoum "Economic Surveys" of 1970 and 1971.

In the field of agriculture there was also a similar picture. In 1972, for instance, the Agricultural Bank was asked by the government to import agricultural machinery worth more than two million pounds from the USSR to be distributed among the units concerned. After their arrival, the units were unenthusiastic about receiving their allotted shares and this machinery was idle for nearly a year. A committee(6) was formed to investigate the reasons behind the refusal to receive their shares and the inquiry found that:

(6) Agricultural Bank - Khartoum 1972.

(i) The unanimous view held by these units was that the Soviet machinery did not stand up well to the hot climate of the Sudan. Previous experience had found their technical performance unsuitable.

(ii) Past difficulties with immediate supply of spare parts for this type of machinery obliged the units in some instances to remove parts from one machine to others.

(iii) Acceptance of their shares would have deprived the units of their right to apply to import suitable types of machinery from the traditional markets of W. Europe.

It could therefore be argued that the shift of imports of capital goods away from W. Europe to the Socialist countries was of little benefit to the Sudan's economy.

In the case of exports, on the other hand, the picture is different. There is nothing that indicates that there was a shift in the Sudan's exports from the EEC, the traditional market for the Sudan's products, to the Socialist countries. The Sudan would naturally have preferred to sell all its products, particularly cotton, in world free markets to acquire convertible currencies and consequently to be free to purchase its imports from the most suitable sources. But this was not possible due to the situation of cotton in free world markets as discussed in the previous chapter. The Socialist countries were in practice residual markets for the Sudan in the sense that their demands were met after meeting those of the world free markets. In

addition, the fact that the Sudan had been holding huge carry-overs of cotton (about one third of its total production yearly) shows that co-operation with the Socialist countries has not resulted in a major expansion in market outlets. The Socialist countries' purchases merely served to offset the fall in the EEC's demand for the Sudan's cotton.

B.(ii) Trade creation trade diversion effects of DIP

In this section an attempt will be made to ascertain whether directing importation to the Socialist countries had a trade creating or diverting effect.

In order to make a satisfactory judgement on the net effect of a trade co-operation arrangement from these points of view, detailed information on costs and prices would be necessary. Even if the necessary cost data could be obtained, the determination of the volume of trade shifted is still a difficult empirical problem. Owing to these difficulties, less refined methods will be used to calculate these aspects. Trade creation and trade diversion(7) will be measured by comparing the ex-ante with the ex-post situation i.e. before and after the co-operation arrangement. The volume of trade created or diverted is then weighted by estimated cost differentials between the new and old

(7) Methods of calculating trade creation-trade diversion effects have been developed primarily to measure the net effects of customs unions and tariff preferential arrangements. There are other methods beside the above-mentioned one, e.g. the one developed by Balassa in which he measures the effects on ex-ante - ex-post basis also by measuring the income elasticity of imports for the whole region of the arrangement. However, as in the case under study, as non-tariff measures were the main instruments used for discriminating among supplies, the method mentioned above seems to be the most suitable one.

sources of supply. If the value of trade created outweighs trade diverted, this will be taken to indicate that shifting trade to the new source of supply, (i.e. the source with which a country enters into a co-operation arrangement), would increase the welfare of the country in static terms, and vice versa, if the opposite takes place. In other words, if the arrangement results in shifting trade to a lower cost source, there would be a trade creation (welfare gain) and if to a higher cost source, the result will be a diversion of trade (welfare loss). There are two basic assumptions in measuring trade creation and trade diversion by this method. The first is the assumption that demand elasticities are zero and supply elasticities are infinite and the second is that the co-operation arrangement is considered as the single factor affecting trade flows.

In thecase of this study, many difficulties arise when using this method to investigate whether shifting trade from the EEC to the Socialist countries through DIP had trade creating or trade diverting effects. A major difficulty among these is the problem of the differences in the qualities of the goods imported from both sources. The fact that foreign trade statistics only show the aggregate numbers or weights irrespective of the quality of the items under the same SITC group makes it difficult to arrive at the differences in the qualities of the items coming from different sources. Generally speaking, the per unit c.i.f. cost, according to the foreign trade statistics, indicate that in the case of most of the commodities, per unit c.i.f. prices of the Socialist countries have been lower than those of the EEC countries.

But as mentioned above, owing to the fact that qualities of goods from both sources are different, the difference between the per unit c.i.f. prices of both sources is not a reliable yard stick. Due to these difficulties, a less refined method will be used here to indicate the effect.

It has often been claimed by Sudanese importers that DIP has resulted in raising the prices of goods coming from the Socialist countries over world market prices. This claim runs as follows:

"Prices quoted by the Agreement Countries are considerably higher than the world prices. In addition, the quality of their products is very low and there are considerable delays in delivery. This results in recurrent shortages in essential items in the domestic market."(8)

If this claim can be verified, it would imply that shifting trade from the EEC to the Socialist countries had a trade diversion effect. It would also imply that DIP has created a semi-monopolistic power for the Socialist countries in the Sudanese markets. The question however is, with which prices do importers make their comparisons? Is it the pricesof similar goods from other sources, e.g. the EEC, the price of the Socialist countries themselves quoted to other countries in which the Socialist countries have no monopoly, or is the comparison based on the price quoted to the Sudanese importers at different points in time? (i.e. previous price from the same source). If comparison is made with the price of other sources, the foreign trade statistics of the Sudan do not

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(8) Sudanese Socialist Union "First National Conference of Sudanese Business-men" - Khartoum, 17-21 December 1972.

support their claim. The per unit prices of the Socialist countries have been lower than those of the EEC countries, as mentioned earlier. In the case of the second, prices quoted to countries where the Socialist countries have no monopoly power, due to paucity of data in this respect, it is difficult to make any judgement here. As for the third, prices offered to Sudanese importers at different points in time, the import licensing authorities(9) support the claim. But the question whether the rate of increase in the Socialist countries' prices have been in line with that of world market prices or not still remains.

One method of throwing light on this matter is to compare the percentage change in the prices the Socialist countries have been quoting to the Sudan with those quoted to other buyers which were trading freely with them at different points in time. But this is not possible due to lack of data on prices quoted by the Socialist countries to other buyers. Consequently in our investigation a less refined method will be employed. The investigation is made by comparing the percentage change in the prices of the Socialist countries at two points in time with that of the EEC countries (for commodities under the same SITC group). Assuming that qualities of the commodities of both sources remained the same, it could be argued that a higher rate of increase in the prices of the Socialist countries compared to

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(9) The licensing authorities in the Ministry of Trade and Supply say that the Socialist countries actually quoted different prices at different points in time. This matter is always raised by the Sudanese negotiators in the meetings with the Socialist countries for the renewal of the trade agreements.

that of the EEC would indicate that the Socialist countries were charging the Sudan more than they charge buyers in non-discriminatory third markets. The assumption is that the differences between the initial absolute world market prices of both sources for the same commodities is due to the differences in the qualities of the commodities in question. Assuming that these quality differences remained constant during the two points in time chosen, the percentage change in the prices of the Socialist countries should have been about the same as that of the EEC, if they are to remain competitive. In other words, a higher rate of increase in the prices of the Socialist countries would indicate that their prices had become higher than world prices. In this case, an indication for trade diversion effect in the case of the commodity in question would be there. If the opposite takes place, i.e. prices of the Socialist countries grew slower than those of the EEC, then by the same token, a trade creation effect would be indicated. Weighing the difference between the two percentage changes by the total volume of trade shifted is taken as the measure for trade diversion or trade creation.

The above could be elucidated by the following hypothetical example; in our exercise the following symbols are used:

$0 \equiv$ the base year = 100

$n \equiv$ the year compared with the base year

$p^s{}_o \equiv$ price of commodity X imported from the Socialist countries (s) in the base year

$p^s{}_n \equiv$ price of commodity X imported from the Socialist countries (s) in the year (n)

$p^E{}_o \equiv$ price of commodity X imported from the EEC (E) in the base year

$p^E{}_n \equiv$ price of commodity X imported from the EEC (E) in the year (n)

Let us suppose that because of the differences in the quality of X of both sources, the price quoted by the Socialist countries to the Sudan in the base year ($P^{S}o$) was £10 whereas that quoted by the EEC ($P^{E}o$) was £20. Let us further suppose that by the year (n), the price of the Socialist countries ($P^{S}n$) went up to £20 and that of the EEC ($P^{E}n$) to £30 i.e. a percentage increase of 100% in the case of the former and 50% in the case of the latter. It is to be noted here that as the Sudan was trading freely with all sources before DIP, $P^{S}o$ and $P^{E}o$ were the prices offered by both sources to all buyers in the free market. Also as the Sudan was trading freely with the EEC before and after DIP, $P^{E}n$ is also the free market price quoted by the EEC to all buyers. But with regard to $P^{S}n$, it was not the price quoted with the Socialist countries to buyers in the free market following the Sudanese importers' claim, i.e. these countries were charging the Sudan more than they charged other buyers, this resulting from the semi-monopolistic power that DIP created to them.

It could be argued that in the absence of DIP, $\frac{P^{S}n}{P^{S}o} \times 100$ should have been about the same as $\frac{P^{E}n}{P^{E}o} \times 100$, or otherwise buyers of the Socialist countries' commodities would be paying more than the commodity in question is actually worth. So if $\frac{P^{S}n}{P^{S}o} \times 100$ is greater than $\frac{P^{E}n}{P^{E}o}$, this would imply that the Socialist countries were charging the Sudan more than they had been charging the other buyers who were trading with them freely. In our numerical example, in the absence of DIP, the price of the Socialist countries quoted to the Sudan should have been £15 (i.e. 10 + 10 x 50%)[10] but the actual was £20 (i.e. 10 + 10 x 100%). So the premium the Socialist countries charge the Sudan over what they charge other buyers is £5 in this case (i.e. 20(the actual) - 15(what should have been charged)).

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(10) This is the rate of increase in the price of the EEC.

Weighing the volume of trade shifted from the EEC to the Socialist countries by this amount, i.e. the £5, will indicate the magnitude of the trade diverted. If the opposite takes place, i.e. $\frac{p^S o}{p^S n}$ is less than $\frac{p^E o}{p^E n}$, then there is an indication or traces of trade creation, measured in the same way.

The above method has been applied to investigate whether there are indications of trade creation or trade diversion as a result of DIP. Comparison is made between the percentage change in the prices of the two main supplying countries, among the Socialist and EEC countries, namely the USSR and W. Germany. The years chosen are 1963 and 1971. 1963 is chosen for our purpose because at that date the Sudan was trading freely with all sources, i.e. before DIP. It is therefore to be noted that the prices quoted to the Sudan by both sources, i.e. $p^S o$ and $p^E o$, were the free world market prices. As regards the prices of 1971, on the other hand, $p^E n$ was the free world market price as the Sudan was trading freely with the EEC, whereas $p^S n$, following the claim of the Sudanese importers, referred to earlier, was not the price the Socialist countries were quoting for other buyers who trade with them freely. In other words, the Socialist countries' prices quoted for the Sudan in 1971 included a premium over the prices they were quoting for the free world markets.

In interpreting the outcome of the exercise, a number of points should be borne in mind. The outcome by no means gives a complete picture about the net effect of trade creation and trade diversion. This is because the method used suffers from a number of shortcomings which are common to investigations such as the one under consideration in this study. Firstly, the point to be stressed again is that

measuring the net effect of trade creation or trade diversion requires beside the differences between the prices of the sources involved, knowing the volume of trade shifted from one source to the other. It is widely acknowledged that there is empirical difficulty in estimating the volume of trade shifted and how to isolate the shift from a particular source from the total shift in trade, e.g. the part shifted from the EEC to the Socialist countries as a result of DIP from the shift that had taken place from all countries trading with the Sudan to the Socialist countries. Any attempt made in this respect requires a considerable amount of projections for every commodity traded and from each source under specific assumptions. This is beyond the scope of this study and requires a separate study. Therefore, the outcome of our investigation only gives a general indication of trade creation and trade diversion, the judgement being mainly based on the differences in the rates of change of prices only.

Another shortcoming is that comparison is confined to the main supplying countries in both groups, namely the USSR and West Germany. This is an additional reason for regarding the outcome of the exercise as providing only a general and rough indication of the matter.

In Table No. 3.6 below, the results of the investigation are set out. It will be noted that the table contains few items. The reason for this is that in 1963, the bulk of the Sudan's trade was with the W. European countries, particularly the EEC (see Table No. 1.6.). Therefore the majority of commodities that were imported from the Socialist countries in 1971 did not appear in the list of commodities imported from them in 1963.

According to the figures of the table, it is clear that in the case of the majority of the items, the prices of the USSR either increased at a lower rate or declined at a faster rate compared to those of W. Germany. Bearing in mind the limitations enumerated above about the methods of calculating the net effect of trade creation and trade diversion, it could be said that the net effect, at least in the case of the items considered, was a trade creating one.

In trying to ascertain the overall effect of the DIP situation the export situation should also be looked at. In trading with the Socialist countries, balancing trade with their partners is a basic condition. In the case of the Sudan, it could be argued, if DIP had not been introduced, it would have been difficult to dispose of huge amounts of ELS cotton and to offset the decline in EEC purchases. Consequently, the carry-overs would have been higher, and mor important, the Sudan would have forgone the consumption of some import goods or faced a more critical balance of payments position. So the gain takes the form of the total value of imports that would have been forgone, or putting it differently, the value of imports that the additional carry-overs (over the normal carry-overs) would have purchased. This is simply because if there had been other outlets than the Socialist countries, the Sudan would not have been led to introduce DIP.

It may be concluded that despite the fact that shifting trade from the traditional partners, i.e. the EEC, to the Socialist countries through DIP has resulted in wasting some of the resources, mainly due to the difficulty in assimilating the technologies of the latter to

Table No. 3.6

Percentage change in USSR and W. Germany prices for some items between 1963 and 1971

SITC	Commodity	USSR per unit price 1963	USSR per unit price 1971	USSR % change	W. Germany per unit price 1963	W. Germany per unit price 1971	W. Germany % change
561.1070	Urea	29.1	22.9	-23	29	21.3	-27
624-2030	Radio sets	7.6	21.2	+179	8.6	36.7	+326
629.100	Rubber outer covers for lorries	9.7	1.9	- 80	11.5	3.7	- 68
629-2010	Electric lamps and tubes	0.45	0.1	- 78	0.06	0.09	+ 50
673.200	Iron bars and reels	43.9	54.5	+ 24	31.9	53.2	+ 67
674-1090	Iron sheets under 3mm.	55.9	62.7	+ 12	70.1	105.3	+ 46
732-1000	Renewed vehicles (passenger cars)	375.0	419.3	+ 12	506.6	489.1	- 3

Source: Calculated from "Foreign Trade Statistics" of the Sudan 1963 and 1971 - Khartoum.

Notes : The big change in the absolute per unit prices in the case of some commodities might be attributable to differences in the sizes of the items.

the conditions of the Sudan, the overall picture indicates that the net effect was favourable and that there may have been some trade creation. In the sense employed above, DIP may have been the best alternative open to the Sudan due to the special situation of ELS cotton. Without it, both exports and consequently imports would have been lower than the actually achieved levels.(11)

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(11) This expected gain cannot of course be equated with trade creation in the strict Vinerian case, but may be so termed in the broader context in which these terms have come to be used in the literature of trade policy. See Viner, J., "The Economics of Customs Unions" in "Internal Economic Integration" Penguin Economic Readings, op. cit.

Chapter IV

Chapter IV

THE LOME CONVENTION

In the previous three chapters, an attempt has been made to show the situation which prevailed before Sudan's joining the Lomé Convention. As the time which has elapsed since the conclusion of the new convention is quite short, the actual ex-post situation is not known as yet. Therefore the ex-post situation will be dealt with in the light of the main objectives the Lomé Convention is expected to serve.

The purpose of this chapter is to summarise the changes in the negotiating background which preceded the conclusion of the new Convention, the main features of Lomé, and the differences between its features and the Yaoundé Convention. This will be followed by some comments on the new approach followed when drawing up the new Convention. An appendix on the position of the Sudan among the ACP states is also attached to this chapter.

1. Changes in the Negotiating Background:

There were two main factors that contributed to the creation of a more favourable attitude towards the new association arrangements. These were firstly the efforts made by the African countries to consolidate their position and from a united front when negotiating with the EEC and secondly, the reconsideration by the EEC of the future co-operation arrangements, which was embodied in the Memorandum of the Commission to the Council of the EEC on "The future relations[1] between the Community, the present AASM states

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(1) EEC Commission "Renewal and enlargement of the Association with the AASM and Certain Commonwealth Developing Countries"- Bull. of European Communities Supplement 1/73 April 1973 - Brussels.

and the countries in Africa and Caribbean, the Indian and Pacific Oceans referred to in Protocol (22) to the Act of Accession".

With regard to the first factor, the efforts made by the Organization of African Unity (OAU) to unify the efforts of all African countries and bringing them together had a considerable impact in ending the differences between the African countries in the matter of association, particularly between the francophone and other associable countries.

The OAU view was that negotiations should take place between Africa, as a whole, and EEC, in contrast to what took place in the past when each country or group of countries negotiated separately with the EEC. A group of experts from all African countries was entrusted with studying the future relations with the EEC in 1973. The findings of the study were endorsed by the Summit Conference of the Heads of the African states of May 1973 in Addis Ababa. A resolution was passed to the effect that all African countries, having special links(2) with the EEC or willing to have, should consolidate their efforts and form a united front in the negotiations. The Summit Conference laid down eight guidelines along which the negotiations should be conducted. These were:

1. Preferential treatment to be extended by the EEC to African countries, without reciprocal obligations.
2. Revision of the 'rules of origin' governing trade between the EEC and some African countries for the purpose of insuring industrial development in Africa.

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(2) Ministry of Finance & National Economy - Khartoum "A Report on future links with the EEC" 1974 (unpublished).

3. Revision of the rules governing payments, and transfer of capital to secure monetary independence for African countries and to enhance co-operation in the monetary field among them.
4. EEC aid not to be conditioned by having a special type of link with it.
5. Free access for all African commodities; manufactured, semi-manufactured and agricultural goods including these under EEC Common Agricultural Policy (CAP).
6. Securing remunerative and stable returns for exports.
7. The new convention should not impair economic co-operation among African countries.
8. Right of establishment to be extended to third countries as well.

In the light of these guide lines a Ministerial Meeting held in Lagos in July 1973, a few days before the start of negotiation with the EEC, laid down the main strategies to be followed, chief among these were: not to lay down any prior conditions, negotiations not to be based on the Yaoundé and Arusha Conventions, all countries to attend the first meetings between the two sides at ministerial levels and appointing one spokesman for the whole group. These efforts were reinforced by efforts to consolidate the position of all ACP states and as a first step, the Caribbean countries were invited to attend the Lagos Meeting as observers.

Along with these developments in the African scene, another development of particular importance to the Sudan took place.

That was the start of the Euro-Arab dialogue which came about as a result of the Declaration made by the Summit Conference of the Heads of States of the EEC in 1973[3] about EEC/Arab relations and the meeting between the Heads of the EEC states and envoys from the Arab countries that took place afterwards.

It seems doubtful if the Sudan would have sought to accede to the Lomé Convention if these developments in both fronts mentioned above had not taken place together due to the political reasons referred to earlier.

On the EEC side, the Memorandum referred to above embodied a number of new elements which clearly showed that the structure of the future convention would be different and more favourable from that of the previous ones, and suggested that the option of Association would be more attractive. The Memorandum attempted to meet a number of the criticisms of the previous arrangement and to meet a number of the specific demands presented by the ACP states.

As "Association" had been always given a political connotation. The Memorandum emphasized that:

"The conclusion with the Community of an arrangement on co-operation entails for the Community's partners no limitations on their sovereignty, either internal or external, nor on their freedom

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(3) EEC Commission "Seventh and Eigth General Reports on the Activities of the European Communities"- Brussels 1973-1974 and Bull. EC/10 point 2504 and EC/12 point 1104 - 1973.

of choice of objectives or means for their development policy. To become an associate does NOT mean joining the Community; it means organizing on an equal footing with the Community a shared framework of economic and development co-operation."(4)

On the economic side the Memorandum put forward proposals which appeared to meet the major demands of the African countries outlined above. Among the new proposals were the 'non-reciprocity principle', arrangements for stabilization of export earnings, strengthening co-operation among the new partners by helping existing regional groupings and in establishing new ones, helping them to develop their industrial sectors and free access for all of their exports, traditional and potential. These points have been among the main demands of all LDCs in international forums such as UNCTAD and GATT. The impact of this favourable climate created before the start of negotiations is clearly manifested in the acceptance of all African countries participating in the negotiations to negotiate a single form of association since the very beginning of the negotiations (25/26 July 1973 meeting between the EEC and ACP states) and the joint statement they made about this.

2. The Provisions of the Lomé Convention

The Lomé Convention is no longer a Convention of association. The word "Association" disappeared at the request of the English speaking partners in the Convention. It is contended that "The

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(4) EEC Commission, op. cit. Footnote 1.

word in English has a different implication from the same French word 'association' for the English-speaking partners might be held to imply annexation or subordination." It is an unprecedented type of economic co-operation arrangement between DCs and LDCs. Not only in its form but also in the way it has been brought into being is new. The favourable general atmosphere created before and during the negotiations played a crucial role in encouraging all ACP states to join these negotiations and to agree from the outset to negotiate a single form of arrangement, i.e. option (1) of Protocol (22).

The provisions of Lomé differ from those of Yaoundé in several important respects. The Convention covers all of the matters referred to in the Commission's Memorandum. It is specific about the principles on which the arrangement should be based and the main objective it should serve. The main principle is as stated in the preamble: "To establish a new model for relations between developed and developing states, compatible with the aspirations of the international community towards a more just and more 'balanced economic order'. This is to be made mainly by 'promoting the industrial development of the ACP states."

The Convention embodies seven titles; trade co-operation, export earnings from commodities, industrial co-operation, financial and technical co-operation, provisions relating to establishment, services, payments and capital movements, institutions and general and final provisions respectively. Except for titles (2) and (3) the titles are the same titles as Yaoundé but with major differences

in the articles. In the following pages, the main provisions of each title will be summarized, comparing them, whenever relevant, with the provisions of Yaoundé.

(i) Trade Co-operation arrangements:

The Lomé Convention provides for free access to the EEC for all ACP states' exports, except for those products under CAP. There are three main differences between the provisions of this Convention and those of Yaoundé in this title; the first of these is the principle of non-reciprocity provided for by Article (7) which states:

"In view of their present development needs, the ACP states should not be required, for the duration of this convention, to assume, in respect of imports of products originating in the Community, obligations corresponding to the commitments entered into by the Community in respect of products originating in ACP under this chapter."

With no reverse preferences obligation on the ACP states, these countries are free to choose the instruments for their policies, unlike the case with Yaoundé where "reverse preferences"(5) have been central.

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(5) In practice, "reverse preferences" were less than 100% - some estimates put them as follows: Central African Union - 21.1%, W. African Union - 12.7%, Madagascar - 13.8%. (Source - "Some Economic Consequences of Reverse Preferences" by Kreinin, M.E. in "Journal of the Common Market Studies" of 1972-3, edited by Kitzinger, U. and Wionczek, M.S. - Oxford, p.162.

In other words, whereas non-reciprocity has been regarded as the exception in the previous conventions, in the Lomé Convention it has become the general rule.

The ACP states will not therefore incur possible costs in the shape of revenue lost as a result of the reverse preferences granted to the EEC, and they are free to protect their industries and balance of payments in the way they choose. The only obligation on their part is to accord the most-favoured-nation treatment to the EEC and not to discriminate among the members of the EEC.

The second main difference between Lomé and Yaoundé in this title is that most-favoured-nation treatment obligation is not to apply in the case of trade or economic relations of ACP states and other developing countries in the new convention (Article 7 (b)) while in the Yaoundé Convention, no such exception was made.

The third difference between the two conventions pertains to the question of the 'rules of origin'. In the Lomé Convention, a separate protocol (Protocol No. I) has been formulated in which the concept of 'originating products' has been defined and detailed lists for products for which the 'status of originating products' will be conferred, have been attached to the protocol, whereas in the Yaoundé Convention, products to which the status could be conferred had been decided upon by a Council decision of the EEC on 5th May 1966.(6) However, apart from this, there are no significant

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(6) UN - ECA Report op. cit. WP 6, p.28.

differences in the definitions in both conventions. According to both[7], the main criterion is to confer the 'status' on all products wholly produced in one or more of the member countries of the EEC and the associated states and territories. Products that do not meet these criteria may nevertheless qualify for the status if the materials and parts imported from third countries do not exceed (on average) 40-50% of the value of the final product.

In the Lomé Convention, two lists (Lists A and B) are attached to the protocol, the first covering products in which working or processing results in changing the tariff heading without conferring the status of originating product or conferring the status subject to certain conditions and the second covers products which the above mentioned operation does not result in changing the tariff heading but confers the status when certain conditions are met. Article 3 (2) of Protocol I lays down the general rule that:

"When for a given product obtained a percentage limit in list (A) and in list (B) the value of materials and parts, whether or not they have changed tariff heading in the course of working, processing or assembly within the limits and under the conditions laid down in each of those two lists, may not exceed in relation to the value of the product obtained, the value corresponding either to the common rate, if the rates are identical in both lists, or to the higher of the two if they are different."

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(7) A joint declaration (Annex IX (5))of the Lomé Convention permits, on case-by-case basis, conferring the status to products which include materials originating in neighbouring LDCs, with which any of the ACP states has a special relation.

The other provisions of this title, particularly those relating to quantitative restrictions and products that come under CAP, are the same as those of Yaoundé, the general rule being (Article 2 (ii) of Lomé): "more favourable treatment than the general treatment applicable to the same products originating in third countries to which the most-favoured-nation clause applies." Only sugar is exempted from the provisions of Article (10) of Lomé (Article 16 of Yaoundé restated) which gives the right to the EEC to take necessary safeguard measures in case of disturbance resulting from the application of the provisions of this title in any sector of the EEC states' economies.

(ii) Export earnings from commodities (STABEX):

This title is one of the major innovations of the Lomé Convention. Previously, stabilization schemes were primarily price stablization schemes, not taking into account fluctuations in quantities exported. Yaoundé I[8], for instance, only provided for 'mitigating fluctuations in prices for agricultural products through short term advances'. STABEX, as mentioned above, applies to total receipts from a number of commodities of interest to the ACP states, i.e. takes fluctuations in both price and quantity into consideration. Provision for this has been made in Article 16 of the new Convention which states that:

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(8) In Yaoundé II, this system was discontinued and price stabilization was to be made in exceptional cases and on an ad hoc basis.

"With the aim of remedying the harmful effects of the instability of export earnings and of 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 in price and/or quality."

Twelve groups of products are covered by the Scheme. These are groundnuts and products, cocoa and products, coffee and products, cotton, coconut and products, palm and products, raw hides and skins and leather, wood and products, fresh bananas, tea, raw sisal and iron ore. Special arrangements have been made for sugar also involving a guaranteed price linked to the Community's support price of CAP and guaranteed import quotas into the EEC for each sugar exporting ACP state. For any ACP state, the Scheme applies to a products if during the year preceding the year of application, earnings from exports of the product to all destinations represents 7.5% of total earnings from merchandise exports; in the case of sisal, the threshold rate is 5%. For the 34 least developed, landlocked and island ACP states listed in Article (24) of the Convention, the percentage is 2.5%.

Implementation of the scheme is through a system of revenue reference levels for each country and each product. These references values are calculated using a simple four year moving average for export values. The difference between this reference level and actual value constitute the amount to be transferred to the eligible ACP states. The transfers are interest free. The total amount

alloted to the scheme is 375 million u.a. divided into five equal annual instalments of 75 million u.a. An ACP state could also request for up to 20% of the amount it is entitled to receive in the following year in advance. The ACP states[9] which receive transfers are required to help in reconstituting the Stabex Fund when the situation of their exports permits. This has been provided for in Article (21) which states that: "The ACP states which have received transfers shall contribute, in the five years following the allocation of each transfer, towards the reconstitution of the resources made available for the System by the Community. Each ACP state shall help reconstitute the resources when it is found that the trend of its exports earnings will so permit."

The maximum amount to be repaid by these countries is limited to the amount of transfer they receive. Repayment is only to be made when the excess of actual earnings over the reference level is a result of increase in prices i.e. if the excess is due to rise in actual quantity over the reference quantity (which is also measured in the same way mentioned earlier), the ACP state involved is not entitled to pay back. The scheme applies only to that part exported to the EEC. The request of the ACP state for transfer is considered, beside the conditions mentioned earlier about the share of the commodity in total exports to all destinations, when actual earnings are at least 7.5% below the reference level. For hard-core countries among the ACP states listed in Article (24), the percentage

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(9) The 34 least developed, landlocked and island ACP states listed in Article (24) of the Convention are exempted from helping in the reconstitution of the Stabex Fund.

2.5%. In certain special cases, the Scheme[10] applies to exports of the product in question, irrespective of destination, i.e. on total export earnings of the product.

(iii) Industrial Co-operation:

Industrial co-operation is a further innovation of the Lomé Convention. It is a fundamental aspect and one of the most novel features of the Convention. Almost all the provisions of the other titles have been formulated in a way to serve this objective. Co-operation in various forms - financial, technical, commercial, etc. - are all viewed as instruments designed to promote industrialisation of the ACP states. It is through industrialisation mainly that the new economic order is thought to come about. For example, in title I, the main stress is on the protection of ACP industries and securing outlets for the potential industrial products. In the Yaoundé Convention, this title was part of the title on financial and technical co-operation. There are four basic new features in Lomé. These are - stress laid on potential exports i.e. processed, manufactured and semi-manufactured goods, transfer and adaptation of technology to the conditions in the ACP states, establishing micro-projects, small and medium sized industries and the distribution of industries within and between ACP states. As regards 'potential exports', there has been ambiguity about this matter due to the fact that whereas AASM states took the view that products of 'economic interest' should include potential exports, the Community's view

(10) The ACP countries benefiting from this are Ethiopia, Burundi, Rwanda, Guinea Bissau and Swaziland.

was that[11] "the product in question must already be exported in some quantities in order to qualify for the status of 'product of economic interest'". In the Lomé Convention, Article (34) makes it clear that potential exports of industrial products will benefit from the provisions of the convention. This Article states that "in order to enable the ACP states to obtain full benefit from trade and other arrangements provided for in this convention, trade promotion schemes shall be carried out to encourage the marketing of industrial products of ACP states both in the Community as well as in other external markets. Furthermore, programmes shall be drawn up jointly between the Community and ACP states in order to stimulate and develop the trade of industrial products among the said states."

Marketing ACP industrial products in domestic markets has also been given special attention through permitting a price preference of 10-15% to be given to manufacturing firms in the ACP countries in supply tenders in all cases, whereas in Yaoundé II price preferences were 0-15% and decided upon on an ad hoc basis. Thus, effectively, the ACP countries are enabled to discriminate against EEC suppliers in favour of domestic firms.

As regards the transfer of technology and its adaptation to the specific conditions and needs of the ACP states, (Articles 26 (d) and (31)), it is the first time in the history of relations between DCs and LDCs that such a firm commitment is made. Until recently, although UNCTAD III adopted a resolution in this matter (Resolution 39 (III)),[12]

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(11) See Ellis, F. & others "Farmers and Foreigners" op. cit. p.11.

(12) See UNCTAD "Report of the Trade and Development Board" on its fifth session - 24 April 4 May and 9 May 1973 - Geneva, p.36.

there have always been reservations on the DCs side about this matter, on the grounds that technology, in most cases, is private property, and governments cannot enforce private firms to disclose their secrets.

The special attention given to micro-projects, small and medium sized industries, is also new and is closely linked with the question of suitable technology and balancing industrial development within and between the ACP states.

A committee for industrial co-operation and a centre for industrial development are to be set up to facilitate the implementation of the provisions of this title. Among the main features also is the stress laid on sectoral balance and linkages between the different sectors of ACP economies.

(iv) Financial and technical co-operation:

This title is closely linked with title (iii). In nominal terms, aid provided in Lomé is about three and a half times that of Yaoundé II, and four and a half times that of Yaoundé I. Table No. 4.1 below compares the figures of the three conventions:

Table No. 4.1./

Table No. 4.1

Comparisons between EEC nominal aid in Yaoundé I and II and Lomé (in mill. u.a.)

	Yaoundé I		Yaoundé II		Lomé	
	aid size	% of total	aid size	% of total	aid size	% of total
1. EDF total of which:	666		828		3000	
a. grants	620	85%	748	81%	2100	62%
b. special soft loans	46	6%	80	9%	900	27%
2. EIB loans	64	9%	90	10%	390	11%
Total	730	100%	918	100%	3390	100%

Source: UN ECA Report on the "Intra African Economic Co-operation and Africa's relations with the European Economic Community" Addis Ababa - December 1972 and the Lomé Convention

In interpreting the above table, several points should be borne in mind. Firstly, with respect to aid provided under the previous conventions, there appears to have been a rough correlation(13) between the size of the EEC's aid alloted to each AASM state and the size of its population. Secondly, the size of the population of ACP states (about 300 million) is more than four times that of AASM states. Thirdly, at the time when Lomé was signed there had been a worldwide inflation. When these facts are taken into consideration, one finds that in both nominal and real terms aid provided under Lomé is less than that provided under the previous conventions. Comparison of the per capita aid of Lomé and Yaoundé II, for instance, show that nominal per capita aid is 11.2 and 13.2 respectively. In real terms also aid under the previous conventions

(13) UN - ECA "Intra African Economic Co-operation and Africa's relations with the European Economic Community" Addis Ababa Dec. 1972. op. cit.

has been more valuable than that of Lomé. According to an estimate made by Peter Tulloch[14] and Hodgkinson, the real per capita aid under Lomé is less by about 40% than that under Yaoundé II. So in real terms, the per capita aid under the new Convention is about half of Yaoundé II, i.e. 1.2 x 60 = 6.7 u.a. This suggests that the total aid under Lomé is just about double that of Yaoundé II and not three and a half times as the figures of the table show. So despite the fact that the EEC has agreed that the AASM states would be no worse off as a result of Lomé, the fact is that they will be worse off. It is also to be noted that the share of grants in total aid has declined considerably which again suggests that aid under previous conventions has been more valuable than aid provided under Lomé.

In the Convention the share of each ACP state in total aid has not been specified. But it has been stated that each ACP state will be given a clear idea about its share in total aid and the terms of aid at the beginning of the period of the Convention (Article 51 (2)). The criteria to be used in distributing total aid among ACP states will refer to a number of factors, e.g. the nature of the project, the level of development of the ACP state, its financial and economic situation and its ability in servicing repayments. Special attention will be paid to the needs of the least developed among the ACP states. With respect to aid provided under the previous conventions, it has been claimed that an unduly large share of EDF aid went to relatively developed countries

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(14) Tulloch, P. and Hodgkinson, E. "Europe and the developing countries" in Grindlays Bank Review - July 1975, p.4.

among the AASM states. This was thought to result from the fact that the main criteria followed in distributing aid was the direct financial return of the project involved, i.e. the private or commercial return. Thus, it is argued, there appeared to have been a positive correlation between the amount of aid allotted to each AASM state and its level of development, measured by the per capita income. Comparing the per capita income in the AASM and the per capita EEC aid given to them is made in the table below:

Table No. 4.2

Per capita income of the AASM states (1971) and per capita EEC aid in $

Country	Per capita income 1971	EEC per capita aid (a)
Gabon	680	32
Ivory Coast	330	34
Congo	270	65
Senegal	250	42
Cameroon	200	27
Mauritania	170	50
Central Africa	150	44
Togo	150	31
Madagascar	140	24
Dahomey	100	22
Niger	100	27
Zaire	100	7
Chad	80	23
Mali	70	25
Somalia	70	24
Upper Volta	70	18
Burundi	60	16
Rwanda	60	14

Sources: (1) Per capita income: As in Appendix of Chapter IV.

(2) EEC per capita aid: "The Courier" European Community - Africa - Caribbean - Pacific, No. 36, March-April 1976.

Note : (a) Per capita aid is the total of the period 1958-1974.

The figures of the table do not follow a particular pattern. But if, for instance, we consider those countries with per capita income

higher than $150 as the relatively developed among the AASM states, it could be said that on the average these countries got more than those with lower levels of per capita income.

In the Lomé Convention, however, the economic and social returns of any specific project is also to be taken into account, (by virtue of Article 43 (2) of the Convention). This might be expected to result in reversing the situation that existed in the past by correlating the level of development and the size of aid allotted to the ACP states inversely, i.e. the least developed among them being apportioned more than the relatively developed.

As regards the terms of aid, they are the same as those of previous conventions; 1% rate of interest, 10 years grace period and 40 years for repayment in the case of soft loans from EDF. The terms are also the same in the case of EIB loans; ACP states could borrow at rates lower by 3% than rates prevailing in world money markets (e.g. 3% less than LIBOR), by means of an interest rate subsidy from the funds held by EDF. The difference between the previous conventions and Lomé lies in the fact that whereas the above mentioned terms of EDF loans have been the most favourable attainable previously, they are now to be the general rule in the case of the least developed ACP states. The preferential treatment of this group of countries is also a new feature of the Lomé Convention.

Among the new features of the new convention is also that EEC aid will be incorporated in the national plans of ACP countries

and giving particular attention to regional projects by allotting 10% of total financial aid to this purpose. Also under the new convention ACP states are to participate in the management of EDF aid.

(v) The other titles (titles V, VI and VII):

Although most of the discussion will be focussed mainly on the first four titles, the main new features of the other titles will be stated briefly for completeness.

1. In title V (provisions relating to establishment, payments and capital movement), the only difference relates to the right of establishment. Whereas in Yaoundé there had been a time limit (3 years) for placing the national and companies of both EEC and AASM states on an equal footing, no such provision has been made in Lomé. Right of establishment, apart from that, is to be on reciprocal basis; as was the case with Yaoundé.

2. In title V 'Institutions', the names of institutions have been changed. Disputes in the new convention are to be settled on an ad hoc basis.

3. Title VII 'General and Final Provisions' deals with organizational matters such as ratification and duration of the convention, new applicants to join the convention, etc.

(3) Some comments on the conventions:

It is clear from the new approach followed in formulating the Convention, the main objective it should serve and the changes introduced in most of the titles, that the Lomé Convention is basically different from the previous conventions. The previous conventions have been subject to much criticism in the theoretical and political discussions, the criticism mainly being focussed on the principle underlying them, i.e. basing the arrangement on the free trade area principle with reciprocal[15] rights and obligation on both parties to the arrangement. The argument of the critics is that, being based on the free trade area concept, the previous conventions have been mainly concerned with the existing patterns of production and trade between the EEC and associates and no account has been taken of the future growth potentials. Accordingly, it is argued that the evaluation of the impact of the arrangement on the associates has been limited to the static gains from free trade creation and losses from trade diversion. Gains accruing from trade creation, according to the conventional theory of customs unions and preferential arrangements, come about from the reallocation of the resources of the whole region of the arrangement according to the comparative advantage principle. The enlargement of the market extent would result in more diversion of labour, specialisation, competition and economies of scale benefits, and these in turn would result in reducing the cost of products to the consumers and consequently raise their welfare. Trade diversion, on the other hand, has the opposite effect. As the production of associate states mainly consists of primary products which are

(15) The main concern here is the principle on which the arrangement is based.

produced without protection, it is argued that no static loss to the EEC would result when it divert its purchases from third countries to the associate countries. At the same time, diversion of purchases of the associate states from third countries to the EEC, it is contended, would have adverse effects on the former countries as most of the commodities purchased are produced under protection, in the EEC.

It has further been argued that as there is a general agreement that demand elasticity for the manufactured goods are high compared to the elasticities of the primary products, and as the bulk of the AASM states' imports from the EEC are composed of the former, whereas the bulk of their exports to the EEC are composed of the latter group, of products, more specialisation in the existing pattern of production in the whole EEC-AASM region will result in unfavourable terms of trade for the AASM countries, i.e. the Prebisch effect. This would in turn widen the gap between the Community countries' and AASM states' incomes. The free trade area principle that governs the arrangement has also been criticised on the grounds that it would paralyse the industrialisation efforts of the associate states. The general contention is, therefore, that association with the EEC on a free trade area basis would be harmful to the development process in AASM countries. Sidney Dell, for example, takes the view that:

"It can be argued that the whole assumption of the association agreement is that the natural function of the African countries is to concentrate on supplying Western Europe with primary products in exchange for finished goods. However, much as it is contended that African countries are free under the Treaty of Rome and the Yaoundé Convention to protect their own industries, the fact remains that

little use has been made of this right, on the contrary, it is taken for granted that the preferences on the exports of primary commodities enjoyed by African countries in the EEC must be paid for by the reverse preferences that EEC countries have retained in associated Africa."(16)

Although the critics of the conventional theory, and of the previous association arrangements, do not invalidate the conclusions of the theory, they maintain that its scope is too narrow in that it has been confined to consideration of static welfare gains and losses mainly on the assumption that private welfare(17) is the main objective to be maximised. In practice, stress is largely laid on the maximisation of some other objectives, mainly bringing about a structural change in the economies of the countries partner to the arrangement and speeding up the rate of economic growth and this entails a dynamic approach to the question of integration and preferential trade arrangements. Mikesell, for example, maintains that:

"I believe, however, that the theoretical analysis of customs unions or of regional preference arrangements generally should be directed more towards the problem of their impact on the direction of investment in the developing countries for future output rather than limited to an analysis of the welfare implications of shifting existing trade patterns."(18)

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(16) Dell, S. "Regional groupings and developing countries" in Trade Strategies for Development, ed. Streeten, P. - Macmillan 1973.

(17) Defined as manimization of real product.

(18) Mikesell, R.F. "The theory of Common Markets and Developing Countries" in International Economic Integration - Penguuin Modern Economic Readings, op. cit. p.167.

As there is generally a preference for increasing industrial production in all DCs and LDCs, it is contended that the static trade creation - trade diversion criterion for assessing the impact of an arrangement is not appropriate. In the dynamic sense, it is seen that trade creation would be harmful to the industrial development in the countries in which the industrial base is small while trade diversion, provided that there is 'a fair distribution' of the industries among all partners in the arrangement, is beneficial to the associates as this will stimulate growth.

The proponents of this new approach, H. Johnson, Cooper and Massell, Mikesell and others, put their argument as follows:(19)

1. The standard economic analysis of customs unions stresses the gains from free trade creation, against which must be weighed the losses from trade diversion, and some weight is put on economies of scale and the promotion of efficiency through competition in a larger market area.

2. The arrangements usually advanced for customs unions in political discussion, however, generally ignore any possible gains from trade creation, in the sense of replacement of domestic production by cheaper imports and instead regard this as a price to be paid for benefits of expanded export markets, these benefits to result from trade creation and trade diversion in favour of domestically produced products; and stress is laid on the gains to

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(19) See Johnson, H.G. "An Economic Theory of Protection, Tariff Bargaining and Formation of Customs Unions" in International Economic Integration, op. cit.

domestic industry from economies of scale and increased competition in a large market as well as the 'growth potential' of a larger markets area. In these arrangements trade diversion is valued for its effect in increasing production within the union, not for its effect in improving the terms of trade with the outside world; this is significant because the conditions under which a customs union will divert most trade are those under which its terms of trade effect will be least.

3. The difference between the two sets of arguments is clearly explained by the hypothesis that standard economic analysis is concerned with maximisation of real product, whereas political discussion is concerned with the maximisation of real income conceived to include utility from the collective consumption of industrial protection. The latter concern is bound to concentrate on the potentialities of a customs union for increasing[20] the industrial output of the country and the efficiency of its industrial production, rather than on its potentialities for satisfying private consumption demand at lower cost by increased imports and to regard such imports as a necessary cost of rather than a benefit from joining a customs union.

4. A second problem is the characteristic of countries likely to be successful in forming a customs union. Broadly speaking, a country will be motivated to join the union only if it judges that its industrial competitiveness or comparative advantage in

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(20) Preference of industrial production, according to Johnson, arises for many reasons such as nationalist aspirations and rivalry with other countries and externalities of various kinds that result from industrialisation.

industrial production is strong enough for its industrial production to increase within the union (or for any loss in aggregate industrial production to be compensated by increased efficiency)... consequently, customs unions are most likely to be negotiable among countries with a similar degree of comparative advantage in industrial production or, as it is sometimes put, countries at a similar stage of economic development.

5. The preference for industrial production hypothesis would imply that any customs union agreement would include provisions to ensure that each number obtains a fair share of industrial production and particularly that the growth of production in union does not concentrate in one or a few countries at the expense of the rest.

The reformulated theory of customs unions and preferential tariff arrangements, as it is clear from the above, puts a case for basing the analysis of the matter on developing industrialisation under protection. In dynamic terms, according to this new version of the theory, trade creation will be harmful for the industries in the arrangement while trade diversion will have positive effect, Even within the arrangement itself, it is seen that there should be some degree of protection to ensure 'fair share' to each partner in the industries of the whole region and offset any adverse backwash and polarization effects.(21)

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(21) Copper and Massell use the phrase 'partial customs union' to such an arragnement; an arrangement in which one or more partners protect their manufacturing industry against other partners' industries, while at the same time have free access to the partners' markets - see Copper and Massell "Towards a general theory of customs unions for developing countries" in the Journal of Political Economy, vol. 73, 1965.

The Lomé Convention, as mentioned, establishes a new model for relations between DCs and LDCs. For many ACP states, industrialisation is apparently the main vehicle for bringing about the desired structural changes in their economies. In other words, industrialization is considered as the 'growth potential area' for their economies and would enable them to go beyond the existing patterns of production. Like many other LDCs, these ACP states desire to bring about rapid industrialization to increase their share in world industrial production and broaden their basis of their economies in an attempt to lessen their economic dependence as primary products producers in the global division of labour. Production of manufactures in most of them is equated with modernisation. Industrialisation is sought for also to facilitate and accelerate the transfer of industrial technology and facilities from DCs to their economies. In addition, there is a general belief that industry has many externalities, higher productivity compared to agriculture, and creates more employment opportunities. It is further believed that manufactured products are less vulnerable to price and income fluctuations compared to the primary products. It is generally thought that industrialisation leads ultimately to an increase in the rate of growth of their economies and to a rise in the standard of living.

Article (7) (non-reciprocity) provides the necessary protection needed for ACP existing and potential production and thus serves two purposes. It checks the harmful effects of trade creation within the EEC-ACP region on the industries of the latter group, on the one hand, and gives assurance of a 'fair share' in the

industrial activities of the whole region, a point stressed in various parts of the Convention, on the other. This has been indicated, for instance, in the preamble with 'balanced economic order' in Article 26 (b), by 'new relations in the industrial field', and in Article 29 by 'extension in the ACP states of industries provessing raw materials and industries manufacturing finished and semi-finished products'.

As regards the possible effect of association on trade diversion, there is no obligation on ACP states to divert their purchases from third countries to EEC countries (except, of course, that part financed by EEC aid which is tied to the Community sources). Because in the case of ACP states, trade diverted will be the part in which terms of trade effect will be greatest (manufactured goods), the provision of non-reciprocity enable them to escape the static adverse effects of trade diversion. On the other hand, diversion of EEC purchases from third countries to ACP states would have positive dynamic effects on the industrial growth in these countries as this would expand the market for their products in EEC markets at the expense of third countries. However, as regional co-operation arrangements among ACP states will take a long time to come to fruition, due to many factors, chief among which is the problem of poor transport and communication systems, the EEC is likely to continue to be the main market for their potential products for a long time to come.

Looked at as a whole, the new arrangement provided for in the Lomé Convention amounts virtually to a partial free trade area

arrangement between the EEC and each of the ACP states, in contrast with the full free trade area arrangement (in principle) that governed the previous arrangements between the EEC and AASM states.

A 'balanced economic order' and 'fair share' in the industries of the whole region entail that there should be some degree of transfer of some industries in which ACP states have comparative advantage and the EEC states have comparative disadvantage from the latter to the former. The extent to which this process will be carried out to enable the ACP states to establish an efficient industrial base will depend on a number of factors. The chief of these are (i) the extent to which the EEC will resort to the escape clauses which reserve the right to the EEC to protect activities domeciled in the Community members (Article (20) - CAP Products) and ((10) - safeguard clause against disturbances and difficulties in any sector of the economies of the EEC countries); (ii) the improvements[22] in the GSP schemes of the EEC promised by the Summit Conference of the Heads of EEC states in October 1972; (iii) the outcome of the multilateral negotiations of GATT now going on; (iv) the extent to which ACP states would respond effectively to the opportunities the Convention opens to them to help in bringing about the structural change in their economies and their ability to bring their industrial production costs down to world cost levels.

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(22) See: EEC Commission "Proposals and Communications of the Commission to the Council relating to application in 1974 of generalized tariff preferences" Com (73) 1800 fin. - Brussels, 24 October 1973.

At this stage, the first three factors will be discussed as they are closely related to each other and affect in one way or another the privileges the Lomé Convention offers to the ACP states, particularly the effect on the transfer of some activities from the EEC to these countries.

It is now widely recognised in theory and practice as well that nominal tariffs on commodities are not the appropriate basis for assessing the restrictive effect of tariff structure on trade. Nominal tariffs are only relevant to the consumption effect and tell nothing about the production effects. What are relevant in the resource allocation process, i.e. the movement of resources among different economic activities, are the effective rates of protection and the effective rate of preferences that results from reducing nominal tariffs on a commodity. Let us now elucidate these concepts first.

The effective rate of protection is defined as:

"The percentage increase in value added per unit in an economic activity which is made possible by the tariff structure relative to the situation in the absence of tariffs but with the same exchange rate."(23) It depends not only on the tariff on the commodity but also on the ratio of imputs in the cost of that commodity and tariffs on these inputs. The first of these, i.e. tariff on the commodity, represents a subsidy to the domestic product whereas tariffs on inputs are virtually implicit taxes on that product. The net effect of these two represent the effective rate of protection on the commodity.

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(23) Corden, W.M. "The structure of a tariff system and the effective protective rate" in International Trade ed Bhagwati, J. - Penguin Economic Readings, Middlesex, England, p.285.

Symbolically, the effective rate of protection can be put as follows:

$$V_j = P_j (1 - a_{i_j}) \quad (1)$$

$$V_j' = P_j \left[(1 + t_j) - a_{i_j} (1 + t_i) \right] \quad (2)$$

$$g_j = \frac{V_j' - V_j}{V_j} \quad (3)$$

From the above three equations:

$$g_j = \frac{P_j + P_j t_j - P_j a_{i_j} - P_j a_{i_j} t_i - P_j + P_j a_{i_j}}{P_j - P_j a_{i_j}}$$

$$= \frac{P_j (t_j - a_{i_j} t)}{P_j (1 - a_{i_j})} = \frac{(t_j - a_{i_j} t)}{(1 - a_{i_j})} \quad (3A)$$

where

V_j = Value added per unit of commodity in absence of tariff, i.e. under free market conditions.

V_j' = Value added per unit of the commodity after tariff, i.e. domestic value added under protection.

g_j = Effective rate of protection for domestic product.

p = World price for the commodity.

a_{i_j} = Share of input (i) in cost of commodity j.

t_i = Tariff rate on input (i) or equivalent charges.

t_j = Tariff rate on commodity (j) or equivalent charges

Equation 3 (A) above could be decomposed into two parts:

$\frac{t_j}{1-a_{i_j}}$ = S = Rate of subsidization to commodity (j) in the domestic market. (4)

$\frac{a_{i_j} t_i}{1 - a_{i_j}}$ = T = Implicit tax on commodity (j) in the domestic market. (5)

The effect of granting a preferential tariff on a particular commodity or its close substitutes is that the rate of subsidization will fall (equation 4 above). If the implicit tax remained unchanged, i.e. equation (5), the domestic producer will have lower effective rate of protection. If 100% tariff preferential is accorded to a foreign producer and no alteration in the tariff rates on inputs are made, the effective rate of protection will be negative. In other words, the foreign producer will enjoy an effective rate of preference over the domestic producer equal to the implicit tax on domestic product. At the same time, the 100% tariff preference will make the preference receiving country enjoy an effective rate of preference over third countries equal to the effective rate of protection previously enjoyed by domestic producers of the commodity in question plus the implicit tax on that commodity. Symbolically the effective rate of preference that the preference receiving country will enjoy over third countries could be expressed as follows:

Effective rate of preference P =

$$\left[\frac{(t_j - a_{i_j}t)}{1 - a_{i_j}} + \frac{a_{i_j}t}{1-a_{i_j}} \right] = \frac{t_j}{1-a_{i_j}} \qquad (6)$$

In words, the preference receiving countries will enjoy preferences equal to the whole subsidization rate previously enjoyed by domestic producers.

Let us give a numerical example. Suppose that the world price of a ton of groundnuts oil is Ls. 100, of which Ls. 60 represent the cost of inputs in the exporting country and the remaining Ls. 40 represent the value added. Groundnut oil imported to the EEC is

subject to 20% tariff ad valorem, let us say. Let us further suppose that groundnut mills domiciled in the EEC pay 10% tariff rate on their inputs of raw materials, say groundnuts. The producers in the EEC to be able to compete with imported oil should at least produce at a cost of Ls.120 (i.e. 100+20%). The value added to the EEC producer will then be:

$$120 - 60 - 60 \times 10\% = \text{Ls.}54$$

The effective rate of protection he enjoys will be

$$= \frac{(54 - 40)}{40} \times 100 = 35\% \text{ (according to (3))}$$

$$\text{or} \quad = \frac{20 - 0.6\text{x}10}{0.4} = 35\% \text{ (" " (3A))}$$

This is composed of a subsidy of $\frac{20}{0.4}$ and an implicit tax of $\frac{6}{0.4}$.

On the other hand, the effective rate of preference that the preference receiving country will enjoy over third countries will be equal to:

$$\frac{(20 - 0.6\text{x}10)}{0.4} + \frac{(0.6\text{x}10)}{0.4} = 35 + 15 = 50\%$$

To sum up, the effective rate of protection increases with the rise in the nominal tariff and fall in the tariff on inputs and vice versa. It might be negative if the subsidization rate is less than the implicit tax or when the domestic value added in the preference granting country is negative. The effective rate of preference, on the other hand, increases with the fall in the nominal tariff on the commodity and rise in tariff on inputs in the preference granting country, i.e. reduction in subsidization rate or increase in implicit tax.

It is to be remembered here that beside tariffs and equivalent charges there are non-tariff barriers to trade, e.g. quantitativeness and administrative restrictions, direct subsidies to producers, etc. Therefore the concept of effective rate of tariffs (i.e. the effective protection and preference rates) show only that part related to tariffs, i.e. explains part of the protection or preference.

Referring back to the four main factors that will affect the process of transfer of some activities to the ACP states mentioned earlier, each will be treated separately in the following pages.

Firstly, as regards the escape and safeguard clauses ((i) above), on the process of the transfer, the reduction of effective tariff enjoyed by the EEC enterprises will depend in practice on the extent to which these clauses will be resorted to. Any increase in, say, the variable levies, the threshold prices of CAP which have the same effect as tariff, or reduction of the implicit tax on EEC products through say, a world wide reduction of tariffs on raw materials, would reduce the effective rate of preferences enjoyed by the ACP states and consequently might retard or impair the process of the transfer. Such measures, or other similar measures, are expected to be taken in the case of those commodities which enjoy high effective protection rate in the EEC (i.e. in which the EEC has comparative disadvantage). The case of processed agricultural products is a case in point. The effective rates of protection on these products rank high in the effective rates scale in the EEC. For example, some empirical studies in this respect estimate the effective rate of protection for shelled groundnuts, their processed crude oil and cakes, at 140% in the EEC (Six)[24] and 80% in the U.K. It is similarly

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(24) These figures are cited in Johnson, H. op. cit. Footnote 19.

estimated that a 10% tariff on processed cotton seeds and soyabean would result in an effective rate of protection of 34% and 160% respectively in Europe. These products, as is widely acknowledged, are the products in which the ACP states have comparative advantage, i.e. that could be transferred. According to Lomé those products that come under CAP are not to enjoy the privilege of free access to the markets of the EEC. Therefore the transfer of such activities would to a large extent depend on the extent to which the escape and safeguard clauses will be resorted to. Broadly speaking, the transfer process will depend mainly on the extent of the 'favourable treatment than the general treatment applicable to the same products originating in third countries', provided for in Article (2 (ii)). Putting it differently, the impact of the effective rate of preference in inducing the transfer will be limited to that part of the EEC markets left after meeting the demand of these markets from EEC domestic products, i.e. the residual market in the EEC. This suggests that if any transfer takes place in such activities, it will mainly be at the expense of third countries and not at the expense of EEC producers at least in the short and medium term. Any transfer from the EEC to the ACP states is a long term process as it entails structural changes in these activities in the EEC and the transfer will depend on the pace at which this structural change takes place. In the case of processed agricultural products in particular, the transfer will depend on the rate at which the measures embodied in the Mansholt[25] plan for restructuring the agricultural sector are implemented. It is widely known that the main objective of CAP is to support the EEC farmers' incomes and keep them in line with

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(25) For the details of this plan see: Marsh, J. and Ritson, C., "Agricultural Policy and the Common Market", REP London 1971.

incomes in other sectors of the Community's economies. The target, intervention and threshold price system is mainly designed to serve this objective. The above mentioned plan aims at reducing the support given to this sector through measures designed to reduce the number of those engaged in agriculture. However, this is a long term process.

(ii) (GSP) and (iii) (outcome of GATT multilateral negotiations) are closely related as they mainly affect the effective rates of preference enjoyed by the ACP states in EEC markets over third countries. The first relate to preferences over third LDCs whereas the second relate to preferences over third countries in general, i.e. world-wide. In its GSP scheme, the EEC has promised to introduce some improvements. These are:(26)

1. A substantial increase in the levels of ceilings applied to preferential imports.
2. A pruning of the list of products subject to Community tariff quotas.
3. The application of a suitable procedure for more efficient utilisation by the beneficiary countries of the preferential treatment granted.

As according to the Lomé Convention, free access to the EEC markets is accorded to all ACP products, with the exception of CAP products, the GSP scheme becomes virtually a scheme offering privileges

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(26) EEC Commission: "Proposals and communications of the Commission to the council relating to the application in 1974 of generalised tariff preferences to exports of manufactured and semi-manufactured products from developing countries" Com (73) 1800 final Brussels 24 October 1973 p.2.

to third LDCs. At the same time, it reduces the rate of effective rate of preferences that the ACP states enjoy over these countries. In principle, the ACP states will enjoy all the privileges under the GSP scheme of the EEC but in practice, as the EEC's nominal tariffs and charges having equivalent effect will be zero (according to the Lomé Convention), any privileges offered under this scheme will lower the margin of the effective rate of preference the ACP states enjoy over third LDCs. In some cases, e.g. the processed agricultural products covered by the CAP (which the EEC is intending to include in its GSP schemes), no specific privileges are offered to the ACP states. The Convention only says that more favourable treatment than that applicable to products originating in third countries will be offered to the ACP states. In the case of such products, privileges offered under the GSP scheme will reduce the effective rate of protection enjoyed by the EEC producers. The ACP states will enjoy the same rate of effective preference as that enjoyed by other LDCs. Any differences between the effective rates enjoyed by both will only result if the EEC offers the ACP states additional tariff concessions over those offered under the GSP.

In GATT negotiations, on the other hand, the Community's offer is to make across the board cuts in the tariffs on some products of interest to all LDCs[27] This will also have the same effect as GSP on preferences enjoyed by the ACP states and will consequently affect the process of the transfer.

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(27) See: EEC Commission "Bulletin of the European Community" No. 2 - Brussels, 1976.

It is appropriate here to mention the fourth factor (iv above). If these improvements take place, the crucial factor in the process of the transfer will be the ability of the ACP states to bring down their production costs not only to the levels of third LDCs, but also to that of DCs which have a comperative advantage in the same transferable activities. Generally speaking, the ACP states are among the less developed countries among LDCs themselves. Bringing down their costs is a matter related to their overall development process, which will be closely bound up with creating favourable conditions for investment. The effective preferences the ACP countries enjoy under Lomé will, accordingly, be affected by the differences between the input-output coefficients in the ACP and third countries. In other words, if the value added in third countries is higher than in the ACP states, for instance, the effective rate of protection facing third countries in the EEC will be lower than that facing the ACP states and hence any preferential reduction to third countries will reduce the effective preferences for the ACP states substantially. For example, suppose that a certain activity is carried out under protection in the EEC and without protection in the ACP and third countries, which have comparative advantage in the product. Suppose further that the value added is £60 in the EEC, £40 in the ACP states and £50 in third countries. According to equation (3) above, the effective rate of protection facing the ACP states and third countries will be 50% $(\frac{60-40}{40})$, and 20% $(\frac{60-50}{50})$ respectively, and therefore any preferences given to third countries might have more effect in boosting their exports than the effect of a bigger reduction in tariffs on the ACP products in the EEC. This could be particularly so in the case of processed agricultural products which have not been given the privilege of free access in the Convention.

It is in the light of these factors that the expected effects of Lomé on encouraging structural change in the Sudan will be first discussed.

The other area on which comment will be made is the "Stabex scheme" in matters of particular relevance to the Sudan mainly. The first comment relates to the products covered by the scheme. The list of products omits some important items of interest to some ACP states. Cotton seeds and products and sesame seeds and products are the only oilseeds among all types of oilseeds produced in big quantities in ACP states that the list does not cover. This is the case despite the fact that it is widely recognised that there is a high degree of interchangeability between oilseeds and thier products and their substitutes, the movements in one having direct bearing on that of the others. However, there is a possibility of adding them to the list according to Article 17 (3) which stipulates that:

"Nevatheless, if no sooner than 12 months following the entry into force of this Convention, one or more products not contained in this list, but upon which the economies of one or more ACP states depend to a considerable extent, are affected by sharp fluctuation, the Council of Ministers may decide whether the product or products should be included in the list, without prejudice to Article 18 (1).[28]

The second point is related to the distribution of the Stabex Fund among the ACP states. According to the Convention, the part of total trade eligible for transfer from the Fund is that part which

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(28) This article is concerned with the total amount of the Stabex Fund.

goes to the Community. The effect of that will obviously be that the ACP states for which the EEC is the major market for their exports of the products covered by the Scheme (see appendix to this chapter), will be the ones most benefiting from the Scheme. Broadly speaking, as the appendix clearly shows, the former AASM countries will be the most benefiting ones mainly.

The third comment is closely related to the above one and applies particularly in the case of the Sudan. It is stated in Article 19 (49) of the Convention that if the fall in export earnings is a result of policies adopted by ACP states, any request for transfer will not be considered. The Convention does not refer at all to the case when joining the Lomé Convention itself might result in such a fall. It might happen that, as ACP states are required to accord the most-favoured-nation treatment to the EEC, offering such a treatment will result in a fall in the exports of the ACP concerned to all destinations by more than the threshold rate specified (i.e. 2.5% of total exports to all destinations in the case of the Sudan). In other words an ACP pursuing a policy such as DIP to dispose of its export products is required not to pursue such a discriminatory policy. The result of this might be a reduction in the exports of some eligible commodities to all destinations by more than the threshold rate. If this takes place, the ACP state, although it meets the first condition for making a request for the transfer, would not benefit from the scheme if total exports earnings fall while that part going to the EEC remains unchanged. It might happen, for example that exports of the Sudan's cotton to all destinations might fall as DIP could no longer be applied (except in trade with

other LDCs), but the value of exports of cotton to the EEC might remain the same. In this case, according to the Convention, the Sudan, although it might be entitled to ask for a transfer, would not get it.

These points will be elaborated in the next chapter.

Appendix to Chapter IV

The Position of the Sudan among the ACP States

The 46 ACP States cover about 20 million sq. km., African countries covering about 99% of the total area. Total population of all ACP States is about 303 million (1973), Africa's share being 98%. Total GNP (in 1971) amounted to $36.7 billion, Africa's share being about 90%. The share of exports in GNP on average ranges from 10% to 30%. Few countries (11 countries for which data is available) enjoyed surplus in their visible trade. Generally speaking, the West African countries are more dependent on the EEC in both exports and imports, particularly the old associates. The share of the EEC is more than 50% of total exports and imports of these countries. The dependence of non-African countries on the EEC is the lowest. 20 countries in Africa have per capita income equal to or less than $150 whereas the minimum in the Caribbean states is $390 which is higher than the highest per capita income in the African countries (with the exception of Gabon). The Pacific countries, on the other hand, have per capita incomes equal to the highest levels in the African group. In the field of trade, sugar, bananas and minerals are the principal exports of the non-African group while tropical oilseeds, cotton, petroleum, diamonds, coffee, tea, wood, livestock and iron-ore and copper are the main export products in Africa. Table No. 4.2 shows the situation of each country in these areas.

The Sudan is the largest country in area among all the ACP States, covering one-eighth of total area (12.5%), with 5.6% of total population and 5.2% of total GNP of the ACP states. It ranks 24th in per capita income and is one of the countries having per capita income less than $150 - one of the least developed among the ACP states. As regards its dependence on the EEC, the share of the EEC is about 30% of both exports and imports. African countries are its main competitors in the case of traditional exports, i.e. cotton, groundnuts and hides and skins, and the non-African are competitors in the case of the main near-future potential exports, e.g. sugar.

Table No. 4.3 (i)

Some basic economic statistics of the ACP States

Country	Area in sq. km.	Population in millions 1973	GNP in $ millions 1971	Per capita income in $ 1971	Exports as % of GNP 1971
A Africa					
1 Dahomey	112.6	2.9	280	100	18
2 Gambia	11.3	0.4	50	90	
3 Ghana	238.5	9.4	2250	250	23
4 Guinea	246.0	4.1	380	90	
5 Guinea Bissau	36.1	0.8	A	250	
6 Ivory Coast	322.5	4.6	1730	330	34
7 Liberia	111.4	1.5	330	210	50
8 Mali	1240.0	5.4	370	70	6
9 Mauritania	1032.5	1.2	200	170	52
10 Niger	1267.0	4.3	400	100	10
11 Nigeria	923.8	59.6	7840	230	20
12 Senegal	197.2	4.2	1020	250	20
13 Sierra Leone	72.3	2.7	540	200	30
14 Togo	56.0	2.1	300	150	28

Table No. 4.3 (ii) (cont.)

Principal exports (% share in total exports) 1973	Exports/Imports	% share of EEC on ACP states exports 1973		% share of EEC in imports and ACP 1973
1 palm products (13%) cotton and groundnuts	38	1972	75	63
2 groundnuts (86%)	75		89	48
3 cocoa (54%) wood (17%) diamonds (2%) manganese	139		39	32
4 iron ore (90%)	N.A.		N.A.	N.A.
5 fruit vegetables bauxite oil zircon phosphates	N.A.		N.A.	N.A.
6 coffee (23%) wood (30%) diamonds (15%)	121		61	67
7 iron ore (71%) rubber (16%)	N.A.		60	32
8 cotton (34%) groundnuts fish	44	1971	26	55
9 iron ore (74%)	143		75	58
10 groundnuts (14%) uranium (39%)	72		65	64
11 crude petroleum (83%) cocaa (5%) groundnuts (3%) tin palm prod. rubber and cotton	179		52	61
12 groundnuts prod. (35%) phosphates (11%)	54		59	61
13 diamonds (61%) iron ore (10%) palm prod. (5%)	83		81	47
14 cocaa (26%) phosphates (46%) coffee (13%) palm prod. & cotton	61		88	68

Table No. 4.3 (iii)

Country	Area in sq. km.	Population in millions 1973	GNP in $ millions 1971	Per capita income in $ 1971	Exports as % of GNP 1971
15 Upper Volta	274.1	5.7	390	70	4
16 Burundi	27.8	3.6	220	60	10
17 Cameroon	475.4	6.1	1160	200	20
18 Central African Republic	623.0	1.7 (1972)	240	150	14
19 Chad	1284.0	3.9	310	80	10
20 Congo	342.0	1.0	300	270	15
21 Equatorial Guinea	73.0	0.3	60	200	
22 Gabon	267.7	0.5	340	680	
23 Rwanda	26.3	4.0	230	60	10
24 Zaire	2345.0	23.6	1750	100	26
25 Botswana	600.0	0.7	100	100	10
26 Ethiopia	1221.9	26.6	1990	80	11

Table No. 4.3 (H) (cont)

Principal exports (% share in total exports) 1973	Exports/Imports	% share of EEC on ACP states exports 1973	% share of EEC in imports and ACP 1973
15 livestock (48%) cotton (22%) groundnuts (8%) 1971	33	24	63
16 coffee (86%) cotton (3%) hides and skins	95	81	55
17 cocoa (22%) coffee (25%) wood (12%) cotton & alumina	110	1971 71	70
18 diamonds (40%) coffee (23%) timber (21%) cotton 1971	113	1968 40	47
19 cotton (63%)	47	1968 77	67
20 crude petroleum (53%) wood and diamonds	73	1971 55	75
21cocoa (46%) 1971	N.A.	N.A.	N.A.
22 petroleum (64%) wood (26%) manganese and uranium	165	65	79
23 coffee (63%) tin (16%)	97	22	23
24 copper (67%) diamonds (6%) coffee (5%) tin cassilerite palm prod. 1970	88	81	39
25 livestock (80%) hides and skins (9%) 1971	N.A.	N.A.	N.A.
26 coffee (38%) hides and skins (13%) oilseeds (10%)	112	28	46

Table No. 4.3 (iii)

Country	Area in sq. km.	Population in millions 1973	GNP in $ millions 1973	Per capita income in $ 1971	Exports as % of GNP 1971
27 Kenya	582.6	12.5	1850	160	27
28 Lesotho	30.0	1.0	100	100	0
29 Madagascar	587.0	7.7	1020	140	14
30 Malawi	118.0	4.8	500	90	22
31 Mauritius	1.8	0.8	230	280	56
32 Somalia	637.7	3.0	210	70	20
33 Sudan	2505.8	16.9	1990	120	15
34 Swaziland	17.0	0.4	80	190	69
35 Tanzania	940.0	14.4	1470	110	25
36 Uganda	236.0	10.8	1240	130	21
37 Zambia	753.0	4.6	1620	380	60

Table No. 4.2 (ii) (cont.)

Principal exports (% share in total exports) 1973	Exports/Imports	% share of EEC on ACP states exports 1973	% share of EEC in imports and ACP 1973
27 coffee (21%) tea (10%) oil products	59	31	46
28 mohair wool (32%) livestock (22%) diamonds (19%) 1971	N.A.	N.A.	N.A.
29 coffee (30%) vanila (5%) sugar (5%) sisal (4%)	99	48	66
30 tobacco (38%) tea (17%) groundnuts (7%) cotton (3%)	70	48	34
31 sugar (90%)	78	48	41
32 livestock (54%) bananas (26%) hides (6%) 1972	50	95	51
33 cotton (56%) gum arabic (5%) groundnuts (9%) sesame (7%) hides and skins	100	1972 32	30
34 iron ore (26%) sugar (23%) timber (19%) cotton and asbestos 1971	N.A.	N.A.	N.A.
35 coffee (19%) cotton (12%) diamonds (6%)	76	26	32
36 coffee (66%) cotton (15%) copper (5%) tea (5%)	201	38	33
37 copper (94%) maize coal zinc	189	52	39

Teble No. 4.3 (viii)

Country	Area in Sq. km.	Population in millions 1973	GNP in $ millions 1971	Per capita income in $ 1971	Exports as % of GNP 1971
B The Caribbean States					
38 Bahamas	14.0	0.2	430	N.A.	N.A.
39 Barbados	0.4	0.25	160	670	38
40 Grenada	0.3	0.1	40	N.A.	N.A.
41 Guyana	215.0	0.8	300	390	63
42 Jamaica	11.4	2.0	1370	720	38
43 Trinidad and Tobago	5.1	1.1	970	940	71
C The Pacific States					
44 Fiji	18.9	0.6	250		
45 Tonga	0.7	0.1	30	255	40
46 W. Samoa	2.9	0.15	20		
Total	20105.4	303.1	36670		

Table No. 4.3 (W) (cont.)

Principal exports (% share in total exports) 1973	Exports/Imports	% share of EEC on ACP states exports 1973	% share of EEC in imports and ACP 1973
38 oil products (32%) cement (12%) sugar	N.A.	4	12
39 sugar (45%) oil prod. (13%) transport equipment	N.A.	N39.	N35.
40 cocoa (40%) nutmeg (30%) bananas 24%	N.A.	N.A.	N.A.
41 sugar (31%) bauxite (48%) aluminium (9%) rice (9%)	83	38	38
42 alumina (42%) bauxite (22%) sugar (10%) bananas (5%)	59	N.A.	N.A.
43 petroleum (75%) sugar (4%)	88	7	16
44 sugar (70%) copra (13%) coconut prod. (5%)	N.A.	N.A.	N.A.
45 copra (50%) bananas (20%) coconuts (14%)	N.A.	N.A.	N.A.
46 copra (43%) cocoa (28%)	N.A.	37	11

Sources: (1) "The Courier" - European Community-Africa-Caribbean-Pacific, No. 31 special issue March '75 Brussels.

(2) The other figures are from IMF "International Financial Statistics" volumes of 1974 and 1975, and "IMF Trade Directory" - Washington, 1968. These figures have been completed from (3) EEC Commission - "Basic Statistics of the Community"- Statistics Office of the European Community - Luxembourg, 1973.

Chapter V

Chapter V

The Prospective Economic Effects for the Sudan of acceding to the Lomé Convention

In the previous chapters, the policies that the Sudan pursued until the early 1970s, the structure and performance of the Sudan's trade with the EEC and the structure and principles on which the Lomé Convention has been based, have all been discussed. Against this background, an attempt will be made in this chapter to assess the effects of joining the Lomé Convention on the economy of the Sudan. These effects may be categorised into two groups: (1) The short and medium term effects, i.e. the immediate effects and the effects within the duration of the convention (1975-1980), and (2) The long term effects. Each will be discussed separately.

I. The short and medium term effects:

The matters which will be discussed are (a) effects on the existing pattern of trade and the balance of payments, and (b) expected benefits from the Stabex scheme.

(a) Effects on the existing pattern of trade and balance of payments:

The Lomé Convention provides for free entry of all ACP states products into the EEC, except those under CAP, provided that the rules of origin condition is met. As far as the existing pattern of the Sudan's exports is concerned, as almost all the main commodities of the Sudan already enter the EEC duty free, the Convention does not provide any additional tariff preferences to the Sudan. There is no

indication that the ELS cotton position will be altered. In gum arabic and sesame the Sudan has a virtual monopoly while groundnuts exports face difficulties since demand in the EEC markets appear to be falling erratically as discussed earlier in chapter I . The only commodity among the Sudan's exports that could have benefited from the free access provision of the Convention is vegetable oils on which the CET is 9-15%. But even in this case no significant change is likely to take place since the Sudan produces mainly cottonseed oil which is not much in demand in the EEC. 80%(1) of the country's total capacity of oil mills is devoted to cottonseed oil (600,000 out of 750,000 tons of seeds), the remaining 20% being the portion devoted to groundnuts and sesame oils. The latter two types are produced in very small mills (cottage industry type) located in the rural areas to meet demand in their localities. The main reason for this concentration on cottonseed oil is that cotton seeds are a by-product of cotton. Their per unit cost is lower than that of other oilseeds, (one third to one half the price of groundnuts and sesame). However, although attempts are being made now to modernize the groundnuts and sesame mills and 54 licenses have been issued for new mills with a total capacity of 505,000 tons of oilseeds since 1970, few of them are now under construction. Accordingly it does not seem likely that the supply of these two types will change significantly in the short run. Apart from this, there is the problem of falling demand for tropical oils in the EEC. As mentioned earlier, the EEC is expanding its domestic production of oilseeds, mainly rapeseeds, the production of which has increased by an annual rate of over 20%(2) during the last decade in response

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(1) Sudanese Socialist Union "First National Conference of Sudanese Businessmen" op. cit.

(2) See Ellis, F. and others "Farmers and Foreigners" op. cit.

to the producers support prices offered by CAP.

Some studies on vegetable oil trade show that for the European consumer, soyabean oil has become cheaper, relative to groundnut oil, and that in the European markets there is preference for unsaturated fatty acids such as those in sunflower seed which originate mainly in Eastern Europe - in the belief that they are more healthy than the saturated ones.(3) For these reasons, it is believed that prospects for tropical oils in these countries are not so bright. For the Sudan, prospects are in markets outside the EEC, particularly in the Arab countries in which demand for vegetable oil is growing rapidly. For instance, the FAO estimate of production of oils and fats in the Sudan in 1975 was about 240,000 tons.(4) This quantity appears to be equal to the lowest estimation of the total imports of oils and fats of Egypt in the same year. It could therefore be concluded that prospects for all vegetable oils produced in the Sudan in the EEC markets are not very good.

As for those items the Sudan envisages adding to the list of its exports in the short run, namely meat and fresh vegetables and fruits, both of them come under the CAP. In the case of meat, the CET on beef and veal has been suspended since 1971/72 (reduced from 20%(5) to 10% then suspended for an indefinite period), due to a world-wide shortage. Currently the EEC is deficient in these products, (self-sufficiency in 1973 was 86.5%).(6) Lamb and mutton are

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(3) See "Sudan and the European Economic Community" op. cit. and FAO "Approaches to International Action on World Trade in Oilseeds, Oils and Fats" - Rome, 1971, p.74-76.

(4) "Sudan and the European Economic Community" op. cit. p. 41/2

(5) Ellis, F. and others "Farmers and Foreigners" op. cit. p.37

(6) EEC Commission "The state of agriculture in the Community" - 1974 Brussels 27 Nov. 1974 com. (74) 2000 Fin. part II.

not covered by CAP and the degree of self-sufficiency in the EEC is rather low (58.5% in 1973).[7] Consumption of these products in the EEC has been declining since 1972 due mainly to the fall in U.K. consumption, which constitutes 60% of total EEC consumption, as a result of changes in price relationships between red and other types of meat, e.g. pigmeat and poultry, and also as a result of apparent lasting changes in the consumption habits of U.K. consumers whose preference now is for meat containing a minimum of fats.

In all types of meat, the deficit is covered by imports from DCs, mainly Australia, Eastern Europe and New Zealand. The difficulty that faces the Sudan in the EEC market, as well as other LDCs, is the health regulations referred to in Article (4) of the Lomé Convention which states that:

"Nothing in this Convention shall preclude prohibitions or restrictions on imports, exports or goods in transit justified on grounds of public morality the protection of health and life of human animals and plants..."

In most of the EEC countries, the health regulations are the main obstacle facing meat exported from LDCs. In the Sudan, however, the process of establishing an animal disease free zone is underway. This zone will cover about one sixth[8] of the total area of the country and is mainly established with a view to opening markets for Sudanese meat[9] in W. Europe. It does not seem likely that this project will

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(7) ibid.

(8) Sudanese Socialist Union "Interim Action Programme" op. cit.

(9) According to the latest estimates available, the Sudan has about 40 million heads of livestock (source: Economic Survey of 1973)

be completed within the duration of the Lomé Convention however and therefore exporting meat to the EEC before the expiry date of Lomé does not seem likely.

As regards vegetables and fruits, 1973 was the first year in which some quantities were exported to the EEC. Before that virtually all quantities exported from the Sudan went to the Arab countries, mainly the oil countries. In the case of vegetables, the EEC is almost self-sufficient (94% in 1972/73).(10) The small quantities imported by the EEC are supplied mainly by Spain, Morocco, Romania and Spansih North Africa. Among the African countries which are ACP members, Kenya and Ethiopia are the main exporters of vegetables to the EEC. They export only very small quantities mainly in the out of season period (December-April). In the case of the Sudan the main types of exportable vegetables which have prospects during the period mentioned above are capsicums, aubergine and courgette. But as the quantities needed from foreign sources is small as mentioned above, exports of these products to the EEC will not be significant.

In the case of fruits on the other hand, the EEC is deficient.(11) The deficit is mainly met by imports from either European countries and the Mediterranean countries (in the case of citrus fruits 80% of total imports of the EEC). The demand for exotic fruits is closely related to the size of the immigrantspopulation from tropical countries. A study made by the International Trade Centre on exotic fruits in

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(10) Source: "The State of Agriculture in the Community" op. cit.

(11) Self-sufficiency in 1972/73, was 34% in citrus fruit, 55% for shell fruits and 76% for other fruits. Source: ibid.

some markets of W. Europe, says, in this respect, "The principal European market for exotic fruit product is the United Kingdom, owing probably to its large immigrant population. Any future development in consumption is likely to take place among the 'British' consumers, as the immigrant market appears to be near saturation."(12)

In the Sudan the exportable fruits are mainly tropical fruits; mangoes, guava and bananas. As the markets for the first two are rather limited in the EEC, exports prospects are meagre. In the case of bananas, the Lomé Convention included Protocol No. 6 which largely attempted to safeguard the interests of Somalia which is heavily dependent on banana exports (25% of its total exports). Somalia, Ethiopia, Ivory Coast, Cameroon and the Caribbean countries are major exporters of bananas. Bananas require a comprehensive marketing arrangement covering all stages from production, packing, shipping and wholesale stage, and therefore it needs huge investment. All ACP states are exempted from the 20% CET but the major problem is the huge amount of investment required in the production and marketing process. The Sudan faces the problem that traditionally the French and British markets have been dominated by the francophone and Commonwealth countries respectively. So, penetrating into the EEC market requires massive promotional measures.

On the supply side also, both vegetables and fruits face the same major problems in the Sudan. According to a study conducted by

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(12) UNCTAD/GATT International Trade Centre "Markets for selected exotic fruit products in the United Kingdom, the Federal Rep. of Germany. Switzerland and the Netherlands"- Geneva, 1971, p.3.

the Food Processing Centre in Khartoum, these are: (a) high costs of both internal and external transport. With regard to the latter, the Sudan does not as yet enjoy the preferential rates of IATA granted to other neighbouring countries like Ethiopia and Kenya[13]. For these countries the preference rates are granted for consignments weighing 45 kg. or more while in the case of the Sudan the minimum weight for which this privilege could be enjoyed is 250 kg. (b) lack of a standardisation system, (a basic condition of CAP). (c) lack of proper storage, credit and agricultural extension facilities.

In conclusion it may be said that in the case of the new products in the export list of the Sudan, namely meat, fresh fruits and vegetables, the prospects in the Community are not promising.

On the import side, the picture looks different. According to Article 7 (2a) of Lomé, the Sudan is to accord most favoured nation treatment to the Community. As has been discussed in chapter II, the EEC has been discriminated against through DIP. As DIP conflicts with the most favoured nation treatment clause, the EEC's products would be accorded the same treatment as that extended to the Socialist countries. The fact that Sudanese importers prefer Western products and purchases with the EEC's aid are tied to source means that imports from the Community will no doubt increase substantially.

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(13) The Sudan's request for preferential rates is still under consideration by the IATA.

Assuming that the income elasticity of imports from the EEC would at least be equal to that of the global era (1958-64), i.e. 1.77 (see Table No. 3.2), and GNP of the Sudan will grow at the annual rate envisaged by the Five Year Plan, i.e. 7.6%, a rough estimate for the annual rate of increase of imports from the Community is 13% if the Sudan extends the most favoured nation treatment to the EEC. This is in prospect at a time when there is no indication that total exports will grow faster than the rate witnessed during recent years, i.e. 2.2% (see Table No. I.5). This raises the problem of how to dispose of the huge quantities of ELS cotton previously exported to the Socialist countries through DIP and difficulties for the balance of payments. The Socialist countries have already reduced their purchases since 1972, when the Sudan showed interest in acceding to the Lomé Convention. From a peak of 636,000[14] bales in 1971, their purchases fell to 370,000 in 1973 and to 183,000 only in 1974 (a reduction of more than 70% during the period 1971-74). This has occurred despite the fact that the Socialist countries have become the major markets for ELS cotton in the world, their share being about 50%[15] of total world imports of this type of cotton. The effect of this sharp fall in their purchases of cotton on the balance of payments is clear from the situation in 1974/75, which covers part of the first year of the Lomé Convention. In that year, the Sudan witnessed the worst deficit on the balance of payments ever experienced; the deficit at Ls.51.7 million was more than four times the average deficit of the period 70/71-73/74 (i.e. Ls.12.2 million). The unsold stock of cotton that

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(14) Bank of Sudan "Annual Reports"

(15) "Cotton Conference" op. cit.

year amounted to 1.2 million bales (about half of total production). If the Socialist countries had continued to play their role as 'the buyers of the last resort' the situation, no doubt, would have been better. If these countries' purchases of cotton in that year had been around the normal which was 425,000 bales (average of 1969-73), instead of 183,000, the deficit in the balance of payments would have been about half the deficit actually recorded, (estimated at the average world prices of 1974 which was about Ls.100 per bale).

In the light of the above, it may be concluded that, as most favoured nation treatment will be accorded to the EEC, while at the same time no significant change on the side of exports to the Community is likely to take place, the Lomé Convention does not offer any significant prospects of improvement in trade with the Community. And indeed, if the reduction in exports to the Socialist countries is to be attributed to association, the overall impact on export earnings may be expected to be unfavourable. It might be argued that EEC aid would compensate for the loss, but the aid may merely replace the earnings lost as a result of the extension of the most favoured nation clause and hence would not represent additional resources to the Sudan. In this connection it may be noted that the EEC has already given an indication of the size of aid that the Sudan will receive during the course of the Convention, namely £120-130 million u.a.(16). This means that the annual aid from the EEC will be about 24-26 million u.a. which is equivalent to about Ls.10 million(17). It should be mentioned here that the Sudan is one of the

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(16) Source: Minsitry of Finance and National Economy - Khartoum.

(17) Sudanese pound = £2.87 and u.a. = £1.17.

least developed countries - a category that is supposed to be given special treatment under the Convention (Article 48). If the total aid provided for in the Convention was distributed among all ACP states evenly, say according to the size of population in each of them, the share of the Sudan would have been at least about 190 million u.a. (population of the Sudan is about 17 million and the per capita aid for all ACP states is around 11.2 u.a.). Even if a criterion other then the population is used, such as the per capita income, the amount allotted to the Sudan is still far less than might be reasonably expected.

The annual aid mentioned above is moreover, on reasonable assumptions, far below the annual loss that the Sudan might incur in its foreign earnings, as a result of the abandonment of DIP. If it is assumed that the Socialist countries would have purchased the average of 1969-1973 of their purchases of cotton yearly (i.e. 425,000 bales) if DIP continued, and assuming further that their actual future purchases would not fall below the 1974 level, i.e. 183,000 bales, a rough estimate of the annual loss at 1974 prices would be around Ls.24 million ((425-183)x100). That means the Sudan will incur a net annual loss of about Ls.14 million (after deducting EEC aid) unless new outlets outside both the EEC and the Socialist countries' markets are found.

To conclude, in the short and medium terms, it seems doubtful that the Sudan will benefit from joining the Lomé Convention as far as the existing pattern of trade and the balance of payments are concerned.

(b) Expected Gains from Stabex:

In the theoretical and political discussions about development in LDCs, great emphasis is made on the problem of instability in their export earnings. Export earnings of these countries, it is argued, are more vulnerable to fluctuations than those of DCs due to the fact that the former group depends on few export commodities, mainly primary products which have low supply and demand elasticities. As exports constitute a large portion of the GNP of these countries, and in some cases their share is higher than the shares of investment and government expenditure, any fluctuations in their earnings would have serious repercussions on the whole economies of these countries. As MacBean puts it,(18) the general contention is that:

"A change in the total value of exports will have a direct impact on export producers incomes. This in turn, runs the argument, will tend to affect expenditure on consumption and investment and so have repercussions on the incomes of other national industries. These direct and indirect effects on incomes will tend to affect the willingness and ability of farmers and businessmen to undertake current investment. The combination of these 'multiplier' and 'accelerator' effects should, unless offset by government policy, tend on the average to produce changes in the national income which are in the same direction and more than proportional to the initial changes in export proceeds. This instability in national monetary income may have repercussions on employment and price levels."

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(18) MacBean, A.I. "Export Instability and Economic Development" George Allen & Unwin, London 1966, p.26.

It is commonly believed that instability in export earnings of LDCs complicates the task of development planning and reduces the efficiency with which investment resources are used. To remedy these adverse effects of export earnings instability of primary products, international commodity agreements for some of them[19] have been concluded after World War II. These arrangements take the form of fixing minimum and maximum prices, buffer stock schemes, production restriction schemes and income compensation[20] schemes. With the exception of the last scheme, it is argued, that the primary aim of these arrangements is simply price stabilisation. In the eyes of LDCs, no such arrangements have been made for commodities of interest to them. The bulk of the above mentioned commodities are produced in DCs and therefore they do not benefit from these arrangements. Secondly, in as much as their problem is one of a long term decline in the terms of trade, they argue that price stabilisation schemes in themselves do little to help. Therefore they are inclined to place emphasis on the need to maintain their import purchasing power rather than more price stability.

Stabex meets some of the demands of LDCs in this respect. The scheme has been formulated to remedy the disruptive effects of fluctuation in ACP states. In the Community's view:

"Financial aid alone is not enough to bring about a satisfactory growth rate in the third world and would only be effective if applied

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(19) These commodities are wheat, sugar, tin, coffee and olive oil - cocoa has been added recently.

(20) This is an IMF scheme. According to the scheme if the export earnings fall by a certain percentage below the average for the previous five years, the county concerned may borrow the difference from IMF.

to economies with a minimum degree of stability. In order to meet the demands of the developing countries, the international community should implement a policy with the following aims:[21]

a. In the long term, a rapid increase in exports of manufactured products from developing countries which enjoy a comparative advantage over industrialised countries.

b. In the short-term, stabilisation and better utilisation of export receipts from trade in primary products."

Looking at the situation in the Sudan, one finds that the share of exports in GNP has been higher than the share of investment and almost equal to that of government expenditure until recently as Table No. 5.1 shows:

Table No. 5.1

The Sudan's GNP and % shares of exports, investment and government expenditure, 1965-70/71

Year	GNP in £ mill	% share of exports	% share of investment	% share of Gov. expenditure
1965	496.9	17	11	13
1966	487.6	19	14	19
1967	536.1	17	13	20
1968	583.3	18	12	19
1969	585.1	18	12	23
1969/70[1]	602.6	19	16	25
1970/71	637.6	19	12	25

Source: Ministry of Finance - Khartoum "Economic Survey 1972"

Notes: (1) Since 1969/70 national accounts system changed to fiscal year system.

(21) EEC Commission "Renewal and Enlargement of the Association..." op. cit.

A detailed study on the repercussions of export instability on the whole economy is beyond the scope of this study. What can be said is that, in the light of what is commonly thought, and what the figures of the above table indicate, fluctuations in export earnings will have adverse effects on the Sudan's economy as the share of exports in GNP is high compared to the other components of GNP (with the exception of consumption). So any fluctuations in the export earnings following the general contention in this respect, is expected to produce fluctuations in the national income and makes the task of taking investment decisions difficult as there will be uncertainty about the availability of foreign exchange needed for the importation of the capital goods and raw materials at a given time. Another direct effect of export earnings instability is the effect on imports and consequently the government revenue. In the Sudan customs duties on both exports and imports constitute more than 50% of the government revenue. Any fluctuation in export earnings will no doubt affect the purchasing power and might lead to reduction in imports and hence the government revenue, unless some other measures are taken such as borrowing.

As mentioned above, Stabex has been formulated to solve some of the problems LDCs face in this respect. In the following pages the benefits that the Sudan could receive from the scheme will be assessed.

Among the commodities covered by the Stabex, however, only two commodities of interest to the Sudan are included, namely cotton and groundnuts and products. Although hides and skins are also covered by the scheme, it does not seem likely that they would benefit from

the scheme as their share in total export earnings is less than the 2.5% threshold proportion specified in the Convention. Therefore discussion will be confined to the first two commodities.

In measuring an instability index different methods are used. Massell[22], for example, prefers to compute the index using an exponential trend and taking the standard deviation of the residuals over the arithmetic mean of the variable as a measure of instability index whereas MacBean prefers the linear trend method taking the average deviations over the arithmetic mean of the trend values as the index. In all cases, instability index is defined as the deviation[23] of the residuals from the trend. In our exercise,, MacBean's method will be used. According to this method instability index is defined as:

"Deviations from the trend in export proceeds: a constant increase and decrease in exports is not regarded as a fluctuation and such general tendencies are eliminated from the data by calculating the trend over the period and using percentage deviations of actual exports for the trend as the measure of fluctuations. The average of these is taken as index of instability."[24]

The computation in this study has been made for prices, quantities and value using a four year moving average using data for the period

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(22) See Massell, B.F. "Export Instability and Economic Structure" American Economic Review, vol. 60, 1970.

(23) There is a less refined method used by U.N. In this method instability index is measured by computing the percentage change of prices (of quantities or values) from year to year and then the mean of these yearly changes is taken as the instability index. Symbolically the index F is defined as $F = 100 \sum_{t^2}^{n} \frac{(Pc - Pt-1)}{n-1}$ where P = price, t = time, n = total number of years. See Michaely, M.E. "Concentration in International trade", N. Holland Publishing Co., Amsterdam 1967.

(24) MacBean op. cit. p.23.

1965-73 for both total exports and exports to the EEC. The results of the computation are portrayed in Table No. 5.2 below:

Table No. 5.2

The Sudan's cotton and groundnuts exports instability indices

	Total Exports			Exports to the EEC		
Commodity	Q	P	V	Q	P	V
Cotton	10	6	13	14	5	13
Groundnuts	17	10	18	21	16	34

Source: Computed from figures taken from "Sudan Foreign Trade Statistics"

Notes : Q, P, and V stand for quantity, price and value respectively.

Figures in the table above indicate the following:

a. For both commodities, value instability is higher than these of quantities and prices. This indicates that there has been no offsetting between quantities and prices, i.e. when one of them moves to a certain direction, the other might not move in the opposite direction. This phenomenon in the Sudan's export instability has been noticed by MacBean who explains it as follows:

"Fluctuations in volume were larger than price fluctuations in the Sudan, whereas instability of proceeds was much greater tham either. This implies few offsetting changes in prices and quantities... The Sudan's extra instability may result from first highly unstable output caused by natural hazards, second, the prices are highly independent of its crop and thirdly specialization on a particular brand of cotton which is highly unstable."(24)

(24) MacBean op. cit p.54-5 - MacBean ranks the Sudan among the twelve countries with the highest instability indices.

As is clear from Chapter I, the structure of the Sudan's exports has not changed since MacBean made his study. His explanations still hold good.

b. Exports of groundnuts have witnessed greater instability than cotton. This could be due to the fact that whereas the bulk of the former has been marketed in the free world market, the bulk of the latter has been marketed through bilateral arrangements. In other words, the bilateral arrangements with the Socialist countries has had anstabilizing effect on cotton exports.

c. In the case of both commodities the instability indices for exports to the EEC are higher than that of total exports. This might be due to the factor referred to in (b) above as well.

What the figures of the table suggest is that on average the Sudan may be eligible for the transfer from the Stabex Fund in the case of both commodities as the instability indices of both are more than the 2.5%[25] threshold rate specified in Article 19 (2) of the Convention. How much the Sudan would get from the Fund is difficult to predict owing to the difficulty in anticipating the future demand and supply situations. What could be roughly indicated is the proportion of the Sudan's total exports that would benefit from the Scheme. Cotton and groundnuts constitute 60% and 9% of total exports respectively. The share of the EEC in each is 25% and 60%. Accordingly only about 20% of total exports might benefit from the scheme ($60 \times 25 + 9 \times 6 = 20.4\%$). This figure is very low

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(25) The Sudan is one of the least developed countries listed in Article 24 of the Convention. These countries are exempted from repaying the amount received from the Fund.

compared to those of most of the ACP states as more than half of their exports of the commodities covered by the scheme go to the EEC (see the appendix to Chapter IV).

If sesame is added to the list, the portion of total exports that will benefit from the scheme will be a slightly higher than the figure mentioned above (to about 23%).

In the special case of the Sudan what is more important than the fluctuations in the proceeds of cotton, is the drop that might take place in the total quantities exported due to the reduction in the purchases of the Socialist countries. As mentioned earlier total aid from the EEC including any transfer through Stabex would not compensate the Sudan for the loss that is expected to be incurred. It appears that the Sudanese delegation to the negotiations did not take this factor into account. If it had, a separate protocol like the one on Bananas might have been negotiable for ELS cotton or at the very least some other special consideration for the case of the Sudan would have been given - perhaps through the aid allocation. The Sudan's special problems in this area had already been noted in the ECA Report in the following terms:

"It would seem that the Sudan may face certain difficulties in negotiating an association or trade agreement with the EEC. The main difficulty in any negotiations between the Sudan and the EEC is likely to be one of reconciling the Sudan's trade agreements with the Socialist countries with the EEC's normal requirements."(26)

As things stand now, it is very doubtful that the Sudan will gain much from joining Lomé in both the short and medium terms.

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(26) UN/ECA Report: op. cit. WP.6, p.51/52.

II The Long-term Effects:

It is clear from the provisions of the Lomé Conventionsthat bringing about structural changes in the economies of the ACP states is the main core of the whole arrangement. The 'new economic order' which aims at 'balancing growth' in the EEC-ACP area is of course a long-term process which entails making structural changes in the whole area. The 'new order' is to come about through a new division of labour in the area, this in turn to be achieved through the transfer of some activities in which the EEC states have comparative disadvantage and the ACP states have comparative advantage to the latter group. In all LDCs, generally speaking, industrialisation is apparently thought to be the main vehicle for achieving the desired structural change. Emphasis is placed on the promotion of integrated industrialisation based on the potential of the country concerned with the aim of achieving the highest degree of interaction between industry and the other sectors of the economy. In theorectical and political discussions, transferring industrial activities domiciled in DCs to LDCs in accordance with the comparative advantage principle, entails, among other things, the reduction of the effective rate of protection enjoyed by these industries in DCs. In an empirical study conducted by Balassa[27] the industrial activities that could be transferred to LDCs, are those which require simple technology such as textiles, leather products, some chemical materials and processed agricultural products, i.e. manufactured consumer products. In the EEC-ACP arrangement, theoretically speaking,

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(27) See Balassa, B. "Trade Liberalisation among Industrial Countries: Objectives and Alternatives" (The Atlantic Policy Studies), New York, 1967, p.50/51.

the transfer of some activities from the EEC to the ACP states could take place not only at the expense of the producers in the EEC but also at the expense of producers in the third countries. As far as transfer of activities from EEC is concerned, as mentioned earlier, the elimination of the nominal tarfff on processed and manufactured exports of the ACP states to the EEC without eliminating the implicit tax on similar commodities produced in the EEC, may put the ACP producers at an advantageous position vis-a-vis the EEC producers. Following Johnson's conclusions in this matter, the effect, as he puts it, will be:

"Concretely, small mafgins of preferences might have a powerful effect in inducing enterprises domiciled in advanced countries to establish production facilities in developing countries in order to circumvent the tariffs levied on their direct exports to other developed countries... Trade preferences for developing countries, even if not at a 100 per cent level, might provide powerful incentives for the expansion of their industrial exports."(28)

The new division of labour in the EEC-ACP area will be achieved by a planned transfer of such industries from EEC to ACP states. This process is of course not that simple and automatic. Its success depends on the flexibility with which the provisions of Article (10) of the Lomé Convention will be applied and the structural changes in the agricultural sector in the EEC countries (i.e. in the production of commodities under CAP).

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(28) Johnson, H.G. "Trade Preferences and Developing Countries" Lloyd's Bank Review 1966. (In this study Johnson developed the study of Balassa/to earlier by incorporating the concept of effective rate of preferences.) /refered

As regards developing industrial production at the expense of third countries, these countries will face the Community's CET of the products involved whereas the ACP states will be enjoying a high rate of effective rate of preference over them.

In a nutshell, the ACP states would benefit from the trade creation generated by the reduction of the effective rate of protection on EEC products on the one hand, and from trade diversion from third countries to the ACP states resulting from the effective rate of preferences that these countries will enjoy in EEC markets.

In the Lomé Convention, a number of provisions have been included to serve this objective. Chief among them are the free access of ACP products to the EEC markets which should expand the extent of the market for their products; developing the main prerequisites for industrial development such as infra-structure, transfer of appropriate technology; expanding intra-ACP trade through encouraging regional cooperation arrangements among the countries and groups of countries in ACP states; and the participation of the Community in promoting the exports of ACP states in world markets.

In this section, the effect of joining the Lomé Convention on bringing about the desired structural change in the economy of the Sudan will be discussed, emphasis being made on developing industrial exports. The analysis will be made in the light of the development objectives laid down in the 'Interim Action Programme' and the sectoral plans of the Sudan, on the one hand, and the

concept of the effective rates of protection and preferences and the situation of the industries covered in the discussion in the EEC on the other hand. Discussion will also cover some areas that are closely related to the sector of industrial exports, particularly infra-structure and regional co-operation.

(A) <u>The effects of joining Lomé on the possibilities of developing industrial products in the Sudan:</u>

In the Sudan's 'Interim Action Programme', the main targets laid down in this respect are:

1. Attaining self-sufficiency in the commodities in which the Sudan has actual or potential comparative advantage to meet local demand and secure surpluses for export.

2. Industrialisation is to rest on developing the agro-industrial sector. The products to be given the highest priority are textiles, sugar, vegetable oils, canned fruits and vegetables, leather and its products, and kenaf and its products.

For all the above mentioned products tentative sectoral plans have been drawn up. Textiles and sugar have been given particular emphasis and detailed plans for them have been formulated. As regards the other industrial products, particularly those of micro and small sized industries, the analysis in their case will be of a general nature due to paucity of data available.

(a) Textiles:

For this commodity a 15 year tentative plan (1972-1986) to be accomplished in three phases has been set out: (i) attaining self-sufficiency, (ii) producing yarn and cotton wool for exportation, and (iii) exporting woven fabrics. The main objective of the plan is to reduce the heavy dependence on raw cotton exportation and to reduce the share of raw cotton in total exports from 62%[29] to 33%.

The plan envisages the processing of 100,000 tons of raw cotton locally (about half of total production of cotton) by 1986. In its first phase, it is expected that self-sufficiency will be attained. 13.5% of total production of cotton (27,000 tons) will be processed to produce 200 million metres of cotton fabrics to meet local requirements. In the second phase, another 75,000 tons of total cotton (37.5%) will be processed. The expected annual proceeds from the exports of yarns and cotton wool produced in this phase is estimated at Ls. 44.3 millions. By the end of this phase less than half the production of cotton will be exported in raw form. In the last phase, 25% of the yarns of phase II will be woven into 126.5 million metres of bleached grey cloth for export plus 1.25 million blankets for the domestic market. By the end of the third phase, the picture is expected to be as follows:

Table No. 5.3/

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(29) The plan does not take into account the expected expansion in other exportable processed and manufactured products such as sugar.

Table No. 5.3

Expedted exports of raw cotton and textiles by 1986

Item	Value in Ls. millions
1. Raw cotton balance export value after phase II	29.4
2. Yarn export value after phase II	44.3
3. Added value to exports due to weaving after phase II	5.9
Total	79.6

Source: Ministry of Industry: "A 15 year tentative plan for Sudan's cotton textile industries" - Khartoum, 1972

The feasibility studies made on textile industries in the Sudan indicate that the country has a comparative advantage in this commodity due to availability of raw materials, cheap labour, availability of power, large local market and the latent and much larger markets of the neighbouring and overseas countries.

In the EEC, the textile industry is, as Balassa(30) says, the 'sick man of the manufacturing sector'. Not surprisingly, it ranks high in the list of effective protection of EEC industries. The question that arises is what will be the impact of the privilege of free access provided for in the Lomé Convention on developing the textile industry in the Sudan. This will depend on three main factors; the effective rate of preference the Sudan's textiles will enjoy over EEC textiles, competition from third countries in the markets of the EEC, and competition from other ACP states.

(30) Balassa, B., op. cit. p.52.

As regards the first of these, there is evidence that in recent years, imports of cotton textiles from third countries into the EEC have increased considerably whereas its imports of raw cotton have declined. This is clear from the table below:

Table No. 5.4

EEC imports of raw cotton, yarn and fabrics 1966-69 (in 000 tons)

Item	1966	1967	1968	1969
Grey cotton yarn in bulk	50.0	43.7	65.0	70.4
Cotton yarn bleached & dyed	9.9	12.2	15.4	18.8
Grey woven cotton	105.1	110.9	124.9	113.7
Woven cotton bleached	37.4	51.5	62.8	51.2
Raw cotton excluding lint	1122.5	1036.5	1005.5	913.2

Source: U.N. "World Trade Statistics" Annuals

The explanation of this phenomenon is attributable to the expansion in textile industries in some LDCs - competition from these countries led to the closure of most of the coarse and medium spinning and weaving mills in EEC countries. Difficulties faced by the textile industries of the EEC, it is said, are the very high levels of wages, shortage of labour and lack of flexibility on the side of the trade unions. However, this increasing trend in the imports of cotton fabrics and yarns indicates that the Sudan could benefit from the free access privilege provided for in Lomé, provided that no resort to Article (10) is made by the EEC and that no modifications in the implicit tax rates takes place. The Sudan will enjoy, with other ACP countries, an effective

rate of preference over EEC textile producers ranging from 6.8% to 24.9%[31], which represents the implicit tax on EEC textiles. This is because the free access clause will lead to the elimination of the implicit tax rate of subsidisation which ranges from 3.6% to 38.9% to the EEC products without changing the implicit tax referred to above, i.e. the effective rate of protection to EEC producers will be negative - 6.8% to-24.9%. As regards competition from non-ACP countries, the effective rate of preference that the Sudan would enjoy over them ranges from 10.4% to 66.7%[32], i.e. the whole subsidisation rate. At the present time, the main competitors to the EEC producers of textiles are non-ACP states, namely India, Pakistan, Hong Kong, South Korea, Yugoslavia, Egypt and Japan. With these countries the EEC has a special agreement within the framework of the Long-Term Agreement on Cotton Textiles (LTA)[33]. Despite the fact that this arrangement expired in December 1973, the same rules of LTA still govern trade in textiles between the EEC and these countries. This arrangement "commits the Community, in particular, to refrain from establishing new quantitative import restrictions (and to suspend those which have been in force) on condition that the exporting country does not exceed the agreed self-restraint levels for its exports to the Community of products covered by the Agreement."[34]

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(31) Source: Johnson, H.G. op. cit. Table II p.176-7. All effective rate of protection and rate of preferences figures used in this study are taken from the same source unless otherwise stated.

(32) This will be the case provided that no substantial privileges are offered to third LDCs under the EEC GSP scheme.

(33) This is an arrangement under the Multi-Fibre Agreement of GATT.

(34) See EEC Commission: "Recommendations for a decision authorising the Commission to open negotiations with certain third countries for the conclusion of agreements on trade in textiles" Com.(74) 341 Fin. - Brussels, 27 March 1974.

The main aim of this arrangement is to avoid any disturbance in the textiles sector in the EEC. These countries (and those not party to LTA but who accept the obligations of the agreement) are the only ones eligible for enjoying the privileges of the GSP scheme of the Community on textiles. However, in absolute terms the privileges are very small now. For example, the ceiling of 1976 for yarn in the GSP scheme is 7.8 thousand tons only.

As regards the other ACP countries, no data about their textile industries is available. Generally speaking, textile industries are the first type of industries established in LDCs. One would therefore expect that the Sudan would face competition from these countries. But as the Sudan is the major producer of cotton among all the ACP countries, one would expect that it could compete effectively with the of other ACP states.

In conclusion it could be said that the expansion in the textile industry would be mainly at the expense of third countries. Although theoretically speaking, the Sudan's textiles would enjoy privileges over EEC textiles, making advantage of these privileges depends on the pace at which the structural change in this sector will take place in the EEC. It could therefore be argued that joining the Lomé Convention may be conducive to the development of the textile industry in the Sudan, mainly as a result of the diversion of EEC purchases of textiles from third countries to ACP states. The effect of the trade creation effect made possible by the free access privilege on the development of the textile industry in the Sudan will largely depend on the pace at which the structural change takes place in the textile sector of the EEC.

(b) Sugar:

Sugar is the other main commodity beside textiles for the production of which a large portion of the resources of the Sudan are geared to. The objective of the sugar plan is the attainment of self-sufficiency by 1976/77 and securing surpluses for export. Thereafter, according to the plam, it is envisaged that by 1980 more than half a million tons of sugar will be exportable. The projection of the plan are shown in Table No. 5.5 below:

The figures in this table suggest that sugar will be the most important item in the Sudan's exports list by the end of the period shown. If it is assumed that prices specified in the 'Annex' of Protocol No. 3 (on ACP sugar), which is 25.53 units of account(35) per 100 kg. for raw sugar, will prevail at the end of the period shown, proceeds of sugar exports will be around $3.5 billion which is equivalent to Ls. 1.2 billion.

Studies on sugar production in the Sudan indicate that the Sudan is among the most suitable countries in the world for sugar production. The reasons given are that the Sudan has vast areas suitable for the production of this commodity and the high ratio of extraction of sugar from cane. A comparison of the rate of extraction in the Sudan with those of some major producers in the world are given in Table No. 5.6.

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(35) The u.a. specified in the Convention is the S.D.R. After the conclusion of Lomé, the EEC established its own u.a. consisting only of European currencies - known as the 'Community basket' - established on 21 April 1975. For the formula of the 'Basket' see "European Communities - European Parliament Working Documents" 1975-76, Document 233/75, 10 Oct. 1975 p.30. The price referred to above is for the period 1 Feb 1975 - June 1976.

Table No. 5.5

Projections of the Sudan's Sugar Plan (in 000 tons)

Name of Factory	73/74	74/75	75/76	76/77	77/78	78/79	79/80	80/81	81/82	82/83	83/84	84/85
Guneid	45	55	55	60	65	70	75	75	75	80	80	80
Girba	75	80	90	95	100	100	105	105	105	100	100	100
Sinnar			40	80	110	115	120	125	130	135	135	135
Assalaya				40	80	110	115	120	125	130	130	135
Kenana				85	200	300	330	350	360	370	380	390
Malut				40	70	90	100	105	110	110	115	120
Mongulla						10	15	25	30	35	40	50
Rank-Gelak							140	280	360	400	410	450
Setait									70	140	220	240
Total Production	120	135	175	400	635	795	1000	1185	1365	1510	1620	1690
Total Domestic Consumption	280	300	320	340	360	380	400	430	460	490	520	550
Balance (-) Imports (x) Exports	-160	-165	-145	x60	x275	x415	x600	x755	x905	x1020	x1100	x1140

Source: "African Development": "Sudan: Economic Survey", African Buyer and Trader Publications Ltd. - London

Table No. 5.6

Average sugar extraction rates in some major producing countries

Country	Extraction rate
Cuba	10%
Egypt	11%
Australia	14%
Sudan	11%

Sources: (1) For all countries except Egypt - Ministry of Information - Khartoum 1973, a study on "The Sugar Industry in the Sudan".
(2) For Egypt - Osman, O.M. "Economics of Sugar Manufacturing in the Sudan" - Cairo Institute for National Planning, 1970, p.58 (in Arabic).

Under the Lomé Convention an annual quota of 1.4 million tons has been allotted to the ACP states - the EEC pledged to import this quantity at guaranteed prices. The quota has been distributed among 13 ACP states already (Article (3) of Protocol No. (3) on ACP sugar). In reality, the figure specified above represents mainly the deficit in the U.K. market left after covering part of the whole deficit from other EEC countries. The original six EEC members have an average annual surplus of around one million tons(36), whereas the new members have an average deficit of about 2 million tons. The U.K. alone has a deficit of 1.82 million tons. Previously this was covered by imports from the Commonwealth countries, the share of LDCs among them being around 1.5 million tons(37), (the balance covered by Australia). The general picture in the EEC is as shown in Table No. 5.7 below:

(36) Ellis and others "Farmers and Foreigners" op. cit. p.34.

(37) This is the quantity specified under the Commonwealth Sugar Agreement.

Table No. 5.7

Sugar Production and Consumption in the EEC in 1972/73 (in 000 tons)

Country	Production	Consumption	Balance
France	3050	2200	+ 850
W. Germany	2268	2328	- 60
Italy	1317	1880	- 563
Benilux	685	342	+ 343
Netherlands	772	868	- 96
U.K.	985	2936	-1951
Ireland	174	196	- 22
Denmark	349	282	+ 67
Total	9600	11032	-1432

Source: "International Sugar Colloquium" - London 1975

The 1.4 million tons is therefore the residual quantity(38) left after meeting part of the deficit from EEC sources.

The prospects for the Sudan in the EEC market, as the picture given above indicates, is not bright. First of all, as all the quantities specified in the Convention have already been allotted to some ACP states, the only possibility for the Sudan to benefit from the provisions of the Convention about sugar is to reach an agreement with the EEC Commission to meet any defaults from ACP states in meeting the total quotas allotted to them. This possibility is slim due to the fact that each ACP state would no doubt try to supply its whole quota to take advantage of the high guaranteed prices(39) which are linked to the prices of Community grown sugar.

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(38) The degree of self-sufficiency in the EEC is 94% (source: "The State of Agriculture in the Community" op. cit.

(39) For example in 1967/8-71/2 the threshold prices of CAP for sugar were 145-456% higher than world prices (see Ellis and others op.cit. p.26)

However, the main targets of the Sudan in the case of sugar are markets outside the EEC, the markets of Arab countries in particular. Arab countries have their own interests in expanding sugar production in the Sudan as some of their investments are directed to this sector. For example, Kuwait is an equity holder in the biggest sugar scheme now under construction (Kenana); its share in the total equity is 25%[40]. In addition, there is a 25 year plan for developing Sudanese agriculture and agro-industrial projects,[41] drawn up by the Arab Fund for Economic and Social Development in the implementation of which all Arab countries members in the Fund will participate. In this plan expanding sugar production is one of the main objectives. The Arab countries need sizeable quantities of sugar and prospects for Sudanese sugar are in these countries. Proximity of these countries to the Sudan, the facts mentioned above about the Arab countries'interests in the Sudan, and the large markets in these countries are the main factors that would help in expanding sugar production in the Sudan. It is estimated that the average annual needs of these countries now (net of quantities produced in the area) are as shown in Table No. 5.7 below:

Table No. 5.7/

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(40) Source: Ministry of Finance - Khartoum.

(41) The salient features of the plan will be discussed later.

Table No. 5.8

Average annual needs for sugar in Arab countries

Country	Needs (in 000 tons)
Oman	65
Kuwait	39
Saudi Arabia	107
Iraq	400
Jordan	118
Republic of South Yemen	53
Republic of North Yemen	77
Algeria	255
Libya	65
Syria	118
Tunisia	63
Total	1360

Source: As for Table No. 5.6

In conclusion it could be said that the prospects for the Sudan in the EEC in the case of sugar is not likely to be great due to the fact that the residual market left to all ACP states is very small (only about 6% of total requirements of the EEC). The prospects are mainly in the Arab countries. The main benefit that the Sudan might get from the EEC is the technical assistance needed in developing the sugar sector in the Sudan.

(c) Processed Food Products:

Beside vegetable oils discussed earlier, developing canned fruits and vegetables industry is the focus in the Sudan's plans. Despite the fact that some factories have been established in the Sudan since the mid 1960s, the experience in this sector has been disappointing. The ratio of the utilized capacities are very small. The main problem as mentioned earlier has been the difficulty in the adaptation of the Socialist countries technologies to the conditions of the Sudan and lack of feasibility studies at the time of their establishment. The 'Interim Action Programme' ranks this sector high in its priority list.

As far as the situation in the EEC is concerned, EEC is more than self-sufficient in processed vegetables (self sufficiency[42] is 101.4%) whereas in the case of processed fruits it is deficient, self-sufficiency rate (excluding juices) being 62%[43]. In the Lomé Convention, ACP states are not exempted from CET[44] plus the levies on those products, since they come under CAP and therefore are excepted from the free access rule provided for in Article (1) of the Convention. Generally speaking the effective rate of protection for commodities under CAP is very high. Therefore it does not seem likely that prospects in the EEC are so bright. As the bulk of Sudanese fruits are exotic fruits, there might be some prospects in the U.K. and France where the number of immigrants is high.

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(42) Source: The State of Agriculture in the Community, op. cit.

(43) ibid.

(44) CET on these products ranges from 20% to 32%. The levies vary according to sugar content.

(d) Leather and Products:

As mentioned earlier, the Sudan has a huge number of livestock. In Africa, it comes second to Ethiopia as far as numbers are concerned. No detailed data is available for hides and skins in the Sudan due to the lack of slaughter-houses (only one modern slaughter-house in the Sudan exists in the Sudan at the present time). However, as the Sudanese consume a lot of meat, the number of animals slaughtered is large.

Hides and skins are exported mainly in raw form, Recently (March 1976) the fourth tannery came into operation and it is expected that all local needs for leather will be covered and some surpluses will be secured for exportation. Another two tanneries are expected to be established during the coming few years and their production will be mainly for export.

The EEC is the main market for Sudanese hides and skins (see Table No. 2.7). This commodity does not come under CAP. According to the provisions of Lomé, exports of leather from the ACP states to the EEC will be exempted from CET which ranges from 3-8%. The EEC is deficient in hides and skins; the self-sufficiency rate is 60%(45), (66% in cattle, 80% in calf, 25% in sheep and an insignificant rate in goat skins). In the case of leather the situation is different. Table No. 5.9 below shows the situation:

Table No. 5.9/

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(45) Source: UNCTAD/GATT "International Trade Centre", "Hides, skins and leather: major markets in Western Europe" - Geneva 1968.

Table No. 5.9

Situation of leather in the EEC[1] in 1966

Item	unit	production	consumption	imports	exports
1. Sole leather (industrial leather, etc.)	000 tons	65.0	51.8[2]	10.9	10.1
2. Leather for shoe uppers other purposes of bovine calf and horse hides	mill sq. feet	858.6	752.2	133.4	217.2
3. Sheep and goat leather	"	677.2	625.6	158.8	209.9

Source: UNCTAD/GATT,"International Trade Centre - "Hides, skins and leather: Major markets in Western Europe" - Geneva 1968.

Notes : (1) Excluding Ireland.
(2) Excluding Ireland and Denmark.

It is evident from the above table that the EEC has surpluses in all types of leather. According to a study[46] made by the International Trade Centre in Western Europe, 60-70% of leather is used in the shoe industry, 15-20% in other leather goods such as ladies handbags, etc., and 3-5% in the clothing industry and 3.5% in the glove industry. It is contended that the most important factor affecting the demand situation of leather in these countries is the existence of substitute materials like PVC fabrics. These substitute materials like PVC fabrics have already obtained more than 50% of the leather market in Western Europe. PVC, it is said, costs about half the price of the cheapest type of leather. In addition, it is argued that the yield per square foot of plastic materials is at least 15% higher than that of leather. Beside substitutes, changes in fashions also affect demand for leather in these countries. It is contended that the habit of the 'teenage

(46) Footnote (45) ibid. p.27.

group of females' is changing quickly. As a result of this, plastic articles which are cheaper have a privileged position. In two sectors, travel goods and technical leather articles, synthetic materials have ousted leather almost completely. In the shoe industry, leather now covers only 10-30% of total shoe industry requirements. It is also believed that importers in W. Europe prefer importing raw hides and skins over leather. Their argument is that 'once tanned into finished leather, it ceases to be a flexible commodity and becomes a manufactured article which has to be sold in specific circumstances".(47)

The situation of demand for leather, as it is clear from the above discussion is not that encouraging in the EEC. The leather industry is among the sensitive industries in the EEC and therefore heavily protected. The implicit subsidy to producers of the EEC ranges from 24.3% to 33%. Although, according to the Convention this subsidy will be eliminated, and EEC producers will instead face an implicit tax ranging from 9.3 to 10.7% and the ACP states will enjoy an effective rate of preference ranging from 35 to 42.3% over third countries, the chances for expanding the Sudan's leather exports to the EEC seem meagre. The fact that the demand for leather is mainly influenced by the changes in fashions, as mentioned earlier, makes the privileges offered by the Convention of secondary importance, as in EEC markets, leather has been ousted already by synthetics, which have more advantages than leather in major end uses.

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(47) Footnote (45) ibid. p.27.

(e) Kenaf and Products:

The plan for kenaf envisages that by 1976/77 the Sudan will be a net exporter of this commodity. The domestic requirements are extimated at 30 million bags.[48] Now there are two factories for sacks, one for plastic sacks and one for kenaf sacks. Each of them produces 10 million sacks yearly. These quantities cover about two thirds of total domestic requirements. Two other factories of kenaf are under way and are expected to go into operation by 1976/77. It is envisaged that by that year a surplus of about 10 million for export will be produced.

Traditionally, jute has been the most widely used fibre for manufacturing sacks and bags. In recent years, kenaf has become an important fibre and its share in total natural fibre is about 30%[49]. Thailand is the major producer of kenaf and products in the world; its share in world production is about 90%[50]. Among the ACP states, Madagascar is the main producer. In Africa, sisal is the main hard fibre produced (60% of total world production[51]). About half of the quantities exported by Africa goes to the EEC.

Demand for kenaf and its products is affected by competition from other natural fibres and synthetic materials. With regard to

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(48) Ministry of Industry "Plans and Direction of Industrial Development in the Sudan" - 1974.

(49) Tropical Products Institute "The Manufacture of woven sacks from natural and synthetic fibre" by Kamath, J. and others - Minsitry of Overseas Development - London, June 1975.

(50) FAO "Monthly Bulletin of Agricultural Economics and Statistics" Rome, 23 March 1974.

(51) ibid.

competition from natural fibres in the EEC market, the arrangement between India and Bangladesh on one side and the EEC on the other is of particular importance for kenaf prospects in the EEC. According to this arrangement from January 1974, 40%[52] reduction on CET and a further 10% from January 1975 on jute products has been agreed upon (within the context of the Community's GSP). With regard to sisal a special consideration has been made for it in the Lomé Convention (in the Stabex scheme).

As regards the situation of synthetics, according to a study made by IBRD[53] 'on the future for hard fibres and competition from synthetics', man-made fibres, particularly propylene (from Naphtha), are displacing natural fibres at a fast rate. Synthetics are preferred because of their cheapness and stability of their supplies and prices.

In addition to the above mentioned facts, it is argued that prospects for natural hard fibresfabrics are also adversely affected by the extension of bulk handling facilities in Western Europe. All these developments have led some to argue that barriers against natural fibres have been removed only after the market for them in Western Europe has been lost to synthetics and bulk handling facilities.

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(52) FAO "Intensive consultation on jute, kenaf and allied fibres' Rome, 1974.

(53) See UNCTAD - Special Session of 1975 - Geneva.

Under the Lomé Convention, however, the ACP states are exempted from the 23% CET on natural fibres. This would eliminate the subsidy of 39.6%[54] (i.e. effective rate of protection) previously enjoyed by EEC producers. But as the facts suggest the benefits from the privileges offered by the Lomé Convention would be limited. Accordingly it could be concluded that prospects for Sudanese kenaf products in the EEC are similar to those of leather.

(f) Other Industrial Products:

These are mainly import substitution and handicraft projects. They are of second priority in the current plans. The industries specified are paper, spare parts, tractors, cars, railway wagons, building materials, tyres, batteries, fertilisers, electric goods and handicrafts made from local materials such as ivory, date palm leaves, wild animals skins and their products, snake skins and products, wood and ebony. For the first group, i.e. import substitution products, generally speaking, as they require relatively sophisticated technology, the effective rates of protection in the EEC are lower than these products discussed above. It is likely that some EEC enterprises would transfer some of their activities to the ACP states to take advantage of the effective rate of preferences offered by Lomé to these countries and the reduction in the effective rates of protection these enterprises were enjoying previously.

As regards the handicraft sector, these are the micro projects in the Sudan and the EEC could help in developing them and absorbing their production.

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(54) Johnson, H.G. "Economic Policies towards Less Developed Countries" George Allen & Unwin, London 1969, p.91.

In conclusion, it could be argued that for most of the industrial commodities specified in the priority list in the Sudan's development plans, prospects in the EEC markets are not so bright. These commodities are heavily protected in the EEC and are considered as 'sensitive sectors'. In addition, these commodities have lost much of their ground in the EEC due to development of synthetics. The privileges offered by the Lomé Convention, it could be argued, would not help much in transferring activities in the areas discussed above to the Sudan. The development of these sectors in the Sudan would, it seems, be at the expense of third countries (i.e. non-ACP countries). In other words, trade diversion from these countries made possible by the preferences offered by Lomé would play the major role. The trade creating effects of the preferences (i.e. Sudanese producers competing effectively with EEC producers) is not likely to be substantial.

With regard to these commodities that have lower priorities in the Sudan's development plans, it could be argued that they are, generally speaking, the ones which EEC producers might prefer to see transferred to the ACP states. These are commodities that require more sophisticated technologies than the ones discussed above and they usually enjoy lower effective protection in the EEC. The Sudan, like other ACP states might not have any comparative advantage in these commodities and it is natural that they will be heavily protected in the Sudan. To enjoy the effective preferences that the Lomé Convention provides on the one hand, and to surmount the high tariff-wall facing similar products of the EEC countries in the Sudan, it is most likely that enterprises domiciled in the EEC would concentrate in transferring such activities to the ACP states. In other words,

the import substitution experience witnessed in most LDCs during the first U.N. Development Decade might, unless checked by the ACP states, be repeated. It is generally agreed that establishing import substitution projects is easier than establishing export oriented projects and therefore easier to transfer to LDCs. As the commodities in which the Sudan has comparative advantage (and therefore not protected), are the same ones which are protected heavily in the EEC (i.e. the sensitive products')

while the reverse is true in the case of import substitution products, the fear is that the reallocation of resources in the EEC-ACP area with a view to attaining the new division of labour would be mainly in the import substitution sector, the sector of lower priority in the Sudan's plans.

(B) Infra-structure:

In the Sudan, as is the case in many African countries, the poor level of infra-structure is among the main obstacles to the desired structural changes in these countries. The poor transport network is, generally speaking, a major bottleneck - even if considerable quantities of surpluses are produced, transporting them is difficult and costly. The discussion will be mainly concerned with the problem of the transport system as it affects the performance of the whole economy generally, and foreign trade sector in particular.

Until recently (1974), the railway was considered as the backbone[55] of the whole Sudanese economy. It has been the sole means of

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(55) The average share of transport (mainly railways) in GNP was 22.6% (average for 69/70-71/72). Source: Ministry of National Economy, Economic Survey of 1973.

transport used to carry exports and exports to and from the main harbour which accommodates almost all the traffic by sea to and from the Sudan. Despite this fact, it has been operating at only 30-35%[56] of its full capacity. The other modes of transport, particularly road transport, have not been of great significance to the economy. The total length of the asphalted roads, for example, was in 1972 less than 300 kilometres[57], and mainly linking Khartoum with its suburbs. In addition, no feeder roads for the railways exist and the low utilized capacity referred to above has been due to this fact partially. This situation led to many defaults on the side of exporters in meeting their commitments towards foreign buyers, and in recurrent shortages in some vital items imported from abroad in the internal markets. In the case of exports, for example, although there is an average surplus of half a million tons of sorghum for export every year, no more than one hundred thousand tons could be transported. Congestion in the main harbour, caused by the poor internal transport system has led some international shipping lines to levy a surcharge of 20% on freight for all goods going out or coming in to the Sudan - known as the 'Port Sudan charge'.

This state of affairs has led to putting the 'development of the transport system', particularly of the road system, as the main strategy of the current amended Five Year Plan. Nearly one third of the total resources of the plan has been directed to develop this sector. The plan is christened 'The development pre-requisited plan'. The plan

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(56) Source: Ministry of Planning "Five Year Plan" - 1970/71-74/75, op. cit.

(57) Ministry of Finance - Khartoum, "Economic Survey" 1972.

for the road network aims at linking the production areas with the harbour, and constructing feeder roads to the Khartoum-Port Sudan road and the railway road as well. The situation for the roads already under construction and those at the feasibility study stage is portrayed in Table No. 5.10 below.

According to the Lomé Convention, developing infra-structure in the ACP states is to be given particular attention. In the previous conventions, about 37%[58] of the total resources of EDF aid during 1958-74 was in fact utilised in the field of transport and communications. It is expected that this sector will be the one in which most of EEC aid will be directed to in the Sudan. This is because this sector is the main bottleneck in the whole economy of the Sudan. However, foreign investors and lenders shy away from this sector, preferring projects with direct returns such as industrial projects, and therefore the Sudan is likely to make use of the soft loans of EDF in this sector. And thirdly, among all modes of transport, road transport is the one on which there is great emphasis now in the Sudan.

Next to developing the road system in the Sudan, comes the construction of a second harbour at Suakin to reduce the pressure now experienced in Port Sudan, and feasibility studies are now being conducted for this. The EEC may also contribute in this project.

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(58) The Courier - European Community-Africa-Caribbean-Pacific: No. 36, March-April 1976, p.44-45.

Table No. 5.10

Plan for Road Transport in the Sudan

Name of Road	Length in km.	Est. cost £s mill.	Remarks
A. Roads under construction			
1. Khartoum-Medani	187	-	Already constructed
2. Medani-Gedarif	227	N.A.	Financed and constructed by China
3. Gedarif-Kassala	220	24	Financed by AFESD & ADB
4. Kassala-Haya	350	N.A.	Sudanese resources
5. Haya-Suakin-Port Sudan	206	24	Grant from Abu-Zabi
6. Gedarif-Duka-Galabat	155	16	ADB - connects Sudan w. Ethiopia and in future w. trans-African road
7. Medani-Sennar-Kosti	-	-	Sudanese resources and assistance from UK
8. Nyala-Kas-Zalengi	210	24	do.
9. Debaibat-Dalang-Kadogli	187	N.A.	do. EDF
10. Sennar-El Suki- El Roseires	257	28	To be financed by IBRD and AFESD
11. Obeid-Debaibat	112	28	do.
12. Obeid-Kosti-Sennar	430	26	do. AFEDS
13. JabalAwlia-Doem-Kosti-Rabak	252	45	do. do.
14. Fashir-Obeid	N.A.	-	Finance not yet secured
15. Fashir-Nyala	N.A.	-	do.
16. Fashir-Geneina	N.A.	-	do.
17. Kosti-Malakal-Juba-Nimoli	N.A.	-	By AFEDS - connects Sudan with Uganda
B. Roads connecting Sudan with neighbouring countries			
18. Kassala-Subdrat	30	-	Connects Ethiopia's roads with Khartoum-P. Sudan re
19. Kaporita-(Sudan) - Lodwar (Kenya)	340	-	Connects Sudan w. Kenya - Norway showed interest in constr. of this road
20 Omdurman-Debba-Dongola - Wadi Halfa-Cairo	2150	-	Links Sudan with Egypt
21. Fashir (Sudan) - Oweinat (border of Libya)	1000	-	To be financed by Libya and Sudan

Sources: (1) Roads and Bridges Corporation - Khartoum, 1976
(2) Ministry of National Economy "AFESD Project" (unpublished)

Notes : (1) AFESD = Arab Fund for Economic and Social Development
(2) ADB = African Development Bank

(C) Effect of Lomé on Economic Co-operation between the Sudan and Other Countries in the Region:

Until very recently, the Sudan, as mentioned earlier, was disinclined to join any economic grouping in the area. Even in the case of the Arab Economic Unity Council (AEUC) of the Arab League, which the Sudan joined immediately after attaining its independence, the Sudan always had reservations about the main measures and issues raised in this body. A clear manifestation of this is the fact that until now the Sudan is not a member in the Arab Common Market, which is one of the major organs of AEUC. Two attempts have been made in recent years to form a regional grouping with other countries. The first was the economic co-operation arrangement between the Sudan, Egypt and Libya signed by the Heads of these countries in 1970, the 'Tripoli Treaty'. This arrangement was suspended after a short period for political reasons. The treaty was similar to that of the Treaty of Rome in many respects; free trade, movement of persons and capital, freedom of establishment with a view to attaining economic union and political union later. The second attempt is the co-operation arrangement concluded between the Sudan and Egypt in February 1974. The salient features of this arrangement are:(59)

1. Developing the transport and tele-communications systems between the two countries. In this respect it has been agreed to form a joint venture for river transport (Wad el Nil River Transport Corporation). Beside it has been agreed to connect Sudan Railways with the Egyptian railways. The arrangement also includes constructing the coastal road mentioned in the above table.

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(59) General Secretariat for Egyptian Affairs in the Sudan: Recommendations, Resolutions and Achievements of the Second Joint Ministerial Meeting, 14-15 July 1975 - Khartoum.

2. In the field of agriculture, a joint venture was also formed. 250 thousand feddans have been allotted to this enterprise in the Roseires area in the Sudan (to be extended to one million in the future). Besides 30,000 feddans have also been allotted to it south of Khartoum for producing fodder. Developing fishery in Nasr-Nuba Lake is another area secified in the arrangement. In irrigation, the Gongoli scheme(60) referred to earlier is to be constructed before 1980/81.

3. In the field of industry, a fund was to be established solely to finance feasibility studies. Joint venture companies are to be established to operate in textile industry and mining.

4. In the field of economic policies, co-ordination in planning to avoid duplication of investment is one of the major objectives specified in the arrangement. It has also been agreed to unify tariff and monetary systems with a view to achieving better allocation of the resources of both countries and attaining a balanced growth in the area. This to be supplemented by a 3-5 years trade arrangement.

There is also the big project(61) drawn by the AFESD which is to be implemented during the period 1976-2000. This project involves an expenditure of 6.5 billion dollars during the first ten years of the period. AFESD has identified 100 complete projects(62) to be

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(60) This project will provide 4.7 millyard cubic metres of water to be divided between the Sudan and Egypt equally.

(61) Source: Ministry of National Economy - Khartoum. (A summary of the plan is given in AppendixIV).

(62) Each of these projects has a profile study elaborating its requirements and its estimated economic returns.

implemented during the first phase of the plan (the first 10 years). The main objective of the plan is to make the Sudan the 'breakfast basket' of the Arab world. From the total sum mentioned above, about $2 billion will be spent during the coming 6 years (i.e. the next six year plan 1976/77 - 81/82). All Arab countries will be equity holders in the project and will provide about 75% of total financial resources needed. Half of the projects are in the infrastructure, irrigation, health care, education, communications, power supply, storage, export and import depots and maintenance facilities. The other half will be spent on agricultural schemes that include poultry, dairy products, the processing of canned fruits and vegetables, frozen and fresh meat, textiles, refined sugar, etc.

As it is clear from the above, in the field of regional co-operation, attention is directed to arrangements with countries in the Arab world. No attempts until now have been made to join groupings in Africa.

In the Lomé Convention, special attention has been given to regional co-operation in the ACP states. As mentioned earlier, 10% of total aid specified in the Convention has been earmarked for this purpose. According to Article (7) of Protocol No. (2) of the Convention, "regional co-operation shall apply to relations either between two or more ACP states or between one or more ACP on the one hand and one or more neighbouring non-ACP countries on the other hand." In the case of the Sudan, regional co-operation is with non-ACP states at the present time. Despite that, it can benefit from the

aid provided for this purpose in the Convention by virtue of Article (9) of Protocol (2) which states that:

"An ACP state or group of ACP states participating with neighbouring non-ACP countries in a regional or inter-regional project may request the Community to finance that part of the project for which it is responsible."

Chapter VI

Chapter VI

Summary and Conclusions

From 1958 until the Sudan acceded to the Lomé Convention, no significant changes in the structure and composition of the Sudan's exports took place. Although the EEC's share in the Sudan's exports declined considerably during the period reviewed, it still remains the major market for Sudanese products. Among the main export commodities, namely ELS cotton, gum arabic, sesame and groundnuts, ELS cotton suffered most from shrinking outlets in the markets of the EEC. This has been due to the replacement of this variety of cotton by synthetics and shorter staple cottons as a result of the fast progress made in textile technology in the last two decades or so. Until the mid 1960s, ELS cotton, which is mainly produced in the Sudan and Egypt, was not greatly influenced by factors affecting the other types of cotton in world markets. But since then, its position has deteriorated drastically. The sharp drop in the EEC's purchases of Sudanese cotton was partly offset by increased purchases by the Socialist countries. It is contended that the Sudan is specialised in the production of a commodity for which world demand is persistently declining and that it produces the wrong type of cotton.

As regards the other export commodities, the Sudan has a virtual monopoly in gum arabic and sesame in world markets and normally no problems are encountered in marketing them. As with groundnuts, although it faces severe competition from soyabean and the Community-grown oilseeds such as rape-seeds, the share of the Sudan in the total imports of the EEC of this commodity has increased considerably during recent years. This came as a result of the drastic fall

in the production of the major producing countries of West Africa due to the severe drought that hit these countries during the past five or six years.

With regard to imports, the EEC is also the Sudan's major supplier, although again the Socialist countries emerged as important suppliers from the mid 1960s until the early 1970s

In the field of aid, the EEC countries have not been important donors of aid to the Sudan. Small amounts of aid were offered by West Germany and Italy - the terms of aid offered by these two countries improved considerably during the period (i.e. the grant element in their aid had been increasing during the period reviewed). However, the Sudan relied much on the Arab countries and the international organisations such as the IBRD and IDA in aid obtained.

As regards the policies pursued by the Sudan in its relations with other countries and economic groupings, there had been little interest towards entering into an economic co-operation arrangement, particularly with the EEC. Although this was mainly due to political reasons, economic factors reinforced these. Paradoxically, this attitude emerged at a time when other African countries sought closer links with the EEC. Previously, the Sudan had long experience in the field of economic co-operation. Since the 1870s and until 1957, there was a customs union arrangement between the Sudan and Egypt. Besides, there had been special trading arrangements between the Sudan and the United Kingdom since the beginning of the century until the time of independence. However, although the Sudan had the opportunity of having closer links with the EEC, like the other African countries

and some Mediterranean countries, there had been little interest due to the unfriendly attitude of the Arab world and some African countries towards the EEC, because of its support of Israel in its conflict with the Arab countries, on the one side, and the scepticism of some African countries about the 'association arrangement', on the other. Also, as the main objective at that time was to promote or expand export markets in the EEC, it seemed that in the case of the Sudan, its exports were not facing threats from those countries which had established close links with the EEC. The association arrangement also included provision for aid, but for political reasons aid from the EEC was not acceptable.

This disinclination towards participation in economic groupings was also a result of internal problems, namely the civil war between the North and South which continued for 17 years. It was generally agreed that it was impracticable to enter into an economic co-operation arrangement with a country or group of countries without first attaining internal integration.

At first, after independence, the Sudan pursued a global policy, but by the mid 1960s this policy was abandoned because of difficulties encountered in marketing ELS cotton in the traditional markets of the EEC. This policy was replaced by a policy which aimed at directing importation to those countries which were prepared to buy the Sudan's cotton. This policy continued until the early 1970s. As a result of this policy, economic relations with the Socialist bloc were enhanced and strengthened. The policy was a discriminatory one in favour of the Socialist bloc over the traditional partners of the free market world. The outcome of this policy was to tie exports with

imports, the same way the Socialist bloc countries do in this respect, and these countries became important trade partners of the Sudan.

By the early 1970s, many developments in the Sudan's foreign policies and the policies of the EEC towards LDCs were taking place. With respect to the developments in the Sudan's foreign economic relations, it was found that the Socialist countries' markets for ELS cotton were shrinking, and moreover, that these countries were re-exporting large proportions to the traditional markets of the Sudan at concessional prices. Secondly, the major political obstacle, namely the war between the North and the South, was removed and peace was restored.

As regards the EEC policies, an approach more acceptable to associates was followed in drawing up the new Convention. This approach put particular emphasis on developing the potential exports of the associated and associable countries and on changing the structure of the economies of these countries. Also the African countries agreed to unite in negotiating the new convention. In addition, Euro-Arab relations have improved considerably in recent years. All these developments help to explain the Sudan's willingness to join the negotiations that led to the conclusion of the Lomé Convention.

The study suggests that the policies pursued prior to joining the Lomé Convention, namely the global and the Direction of Importation policies, were more beneficial to the Sudan than other alternative policies which could have been pursued at that time,

such as having closer links with the EEC. This was because, firstly, no additional prospects for the Sudan's exports in the EEC markets would have been gained from association since most of the major export items were not facing competition from associated countries and because association would surely have resulted in foregoing the aid given to the Sudan by the Arab countries.

Secondly, as huge amounts of the resources of the Sudan were committed to ELS production, and it did not seem likely that the declining trend of the EEC's purchases of this commodity could have been altered, a search for new outlets through such a policy as DIP was inevitable. However, although directing importation to the Socialist bloc led to the wastage of some of the resources of the Sudan as a result of the difficulty of assimilation of the technologies imported from these countries to the condition of the Sudan, strengthening relations with this bloc was to its advantage. Had the Sudan, for example, associated with the EEC instead, reduced export proceeds and consequently a smaller capacity to import might have resulted. DIP, in spite of its drawbacks, did enable the Sudan to import more than would have been possible had the Sudan joined the EEC.

As mentioned earlier, the narrowing of the markets of ELS cotton in the Socialist countries by the early 1970s, the more attractive approach followed by the EEC in its policies towards association, restoration of peace in the Sudan, and the change in the attitudes of the Arab world and the African countries which were critical of the association arrangement, seem to have been the main reasons behind the change in the attitude of the Sudan to joining the new convention. This Convention differed in many respects from the ones preceding it.

Chief among these differences are the non-reciprocity principle (which was one of the basic aspects of the previous Conventions), the scheme for stabilizing export earnings of the ACP states, giving particular attention to industrialisation of the ACP countries, and the enlargement of the associated group of countries.

The main aim of these innovations is to help to bring about structural changes in the economies of the ACP states. However, to what extent the measures incorporated in the new convention will help in this matter depends on a variety of facters including the extent to which the effective rate of protection enjoyed by the EEC producers is reduced and the effective rate of preference that ACP states enjoy over third competing countries in the EEC markets. It is generally agreed that the activities that enjoy high rate of effective protection in the EEC are those activities of interest to the ACP states, such as agricultural products, processing activities and light industries. The former group of activities have been excepted from the free access privilege provided for in Lomé and therefore the transfer process will to a large extent depend on the pace at which the structural change in the EEC countries in these activities is carried out. As for the second group, although the ACP states will enjoy high effective preferences in the EEC markets, the transfer depends on the flexibility with which the EEC states will implement the escape clauses embodied in the Convention. If there is inflexibility on the part of the EEC countries in this respect, the transfer of the activities to the ACP states may not be very significant. Generally speaking, most of the transfer will be at the expense of third countries over which the ACP states enjoy high effective preference rates in the EEC markets. Putting this differently,

industrialisation of the ACP economies will come about as a result of trade diversion (i.e. diverting EEC purchases of the commodities involved from third sources to the ACP states), rather than from trade creation within the whole EEC-ACP region.

In assessing the prospective impact of joining the Lomé Convention on the economy of the Sudan, the study suggests that in the short and medium term, no benefits may acrue. Rather a net loss may be incurred. This is because no change in the trend of exports of the Sudan to the EEC is expected. In addition, benefits expected from the Stabex Fund will not be substantial due to the fact that the scheme applies only to that part of exports which goes to the EEC. The EEC's share in the Sudan's exports is relatively low compared to its share in the exports of the competing ACP states. An important point in evaluating the benefits of association is that as the Sudan was able to export sizeable amounts of its cotton through DIP to the Socialist countries in the past, and as it is obliged to accord the most-favoured nation treatment to the EEC countries, the real problem of the Sudan becomes not the fluctuation in the proceeds of exports of its eligible commodities that can benefit from the scheme, but rather the fall in the trend of total exports to all destinations. This may result from the fact that the Sudan will not be able to pursue DIP any longer. This will probably result in an overall drop in cotton exports. On the other hand, according most-favoured treatment to the EEC will enhance imports of the Sudan from this source. The net outcome is likely to be that the Sudan will face severe balance of payment difficulties. The EEC aid is unlikely to offset the anticipated loss in total export earnings resulting from the loss of exports to the Socialist countries.

With regard to the long-term effects, the Sudan has embarked on developing and bringing about the structural change in its economy through developing agro-industries and infra-structure. In the EEC agro-industries either enjoy high effective rates of protection or have reduced the usage of natural raw materials to a considerable extent. In some activities of interest to the Sudan, such as the leather industry, natural raw materials have already been ousted by synthetics, and therefore in their case, the effective rates of preferences offered under the Lomé Convention may not be of significant importance. However, the Sudan's target for finding outlets for its potential exports is the Arab world which is deficient in almost all the potential export commodities the Sudan is engaged in developing now. The Arab countries have their own interest in the Sudan. In the coming ten years these countries are pledged to provide the Sudan with $6.5 billion to change the structure of its economy and provide them with all their food requirements. The EEC financial aid will obviously be insignificant in comparison with this huge amount. As one sees it, the ideal situation is to concentrate on the technical assistance provided under Lomé, particularly the transfer of the EEC technologies in the activities now being developed in the Sudan. Another area in which technical assistance is needed is infra-structure. In this field advantage may be taken of EEC assistance. Developing the roads network is of particular importance to the Sudan economy as beside connecting the different parts of the country, they also connect the Sudan with the neighbouring countries, most of which are among the ACP states. So beside the assistance the Sudan is entitled to in its capacity as an individual member of the ACP group, it could make use of the 10% of the total EEC aid allocated to the development of sub-regional and inter-regional projects among the ACP countries.

However, as there is no obligation on the Sudan to reciprocate by offering similar concessions to the EEC countries, acceding to the Lomé Convention, although it will be of a limited benefit as far as potential exports are concerned, will widen the extent of the market to these commodities directly and indirectly; directly, through widening markets to these products in the EEC at the expense of third countries, and indirectly, through developing the economies of the neighbouring countries which are potential markets for these commodities.

Appendix I

World and the Sudan's total stocks of cotton during 1961-70 1st August (in 000 tons)

Year	World	Sudan
1961	4,406	72
1962	4,316	145
1963	5,068	130
1964	5,625	65
1965	6,304	106
1966	6,668	136
1967	5,884	166
1968	4,818	169
1969	4,988	189
1970	4,614	156

Source: Commonwealth Economic Committee 'Industrial Fibres Reviews' 1961-70.

Appendix II

Total Exports and Imports of the Sudan during 1958-1972

Year	Exports	Imports	Visible Trade Balance
1958	42.3	58.6	- 16.3
1959	62.5	48.1	+ 14.4
1960	63.4	63.7	- 0.3
1961	62.2	82.9	- 20.7
1962	79.0	89.3	- 10.3
1963	78.7	97.6	- 18.9
1964	68.6	95.5	- 26.9
1965	67.9	72.2	- 4.3
1966	70.7	77.4	- 6.7
1967	74.1	74.3	- 0.2
1968	81.1	89.7	- 8.6
1969	86.2	92.5	- 6.3
1970	103.9	100.1	+ 3.8
1971	114.4	115.4	- 1.0
1972	123.2	117.9	+ 5.3

Source: Minsitry of Finance: Annual "Economic Surveys" - Khartoum

Appendix III

Egypt's total production and consumption of cotton during 1960/61 - 1969/70 (in 000)

Year (1)	Production (2)	Consumption (3)	(3) as % of (2)
1960/61	1054	165	16
1961/62	740	262	35
1962/63	1008	283	28
1963/64	974	304	31
1965/65	1104	292	25
1965/66	1146	373	33
1966/67	1006	402	40
1967/68	966	407	42
1968/69	964	407	42
1969/70	1196	418	35

Source: Commonwealth Economic Committee 'Industrial Fibres Reviews' London.

Appendix IV

AFESD Plan for developing the Sudan's economy

1. Total Funds to be allotted (in Ls. mill.)		2,230.8
of which: a. Local		832.2
b. Foreign		1,298.6
2. Methods of Financing (in Ls. mill.)		
a. Direct Investments	703	(31,5%)
b. Soft Loans	1,093	(49%)
c. Commercial Loans	352	(15.8%)
d. Grants	83	(3.7%)
3. Shares of sectors in total resources (in %)		
I. Agriculture		68.8%
of which: a. Agricultural crops		34.8%
b. Livestock, poultry and fishing		17.0%
c. Agro-industries		17.0%
II. Infra-structure		31.2%
of which: a. Water and power		5.5%
b. Transport and Communication		19.8%
c. Related services		5.9%

Source: Ministry of National Economy - Khartoum.

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