Overseas Development Institute

Policy brief

May 2010

# Trading out of crises and reducing vulnerability

## Key points

- The EU needs to adopt a new approach to Doha negotiations that better recognises and works with developing countries
- EU preferences need updating for the 21st century, and innovative solutions to preference erosion need to be found
- Any global climate change agreement needs to be dovetailed with the multilateral trading regime and with development priorities

'Trade disappeared from DFID's radar in 2009. While this needs to change, the limits on the ability of the UK and EU to set policy must be recognised'



Trade is a central tool for leveraging the international system for development, and the global financial crisis has demonstrated its importance in reducing vulnerability to current and future crises.

The years 2008 and 2009 represented crisis years for trade policy. The Doha Round negotiations stalled; climate change negotiations broke down; and Economic Partnership Agreements (EPAs) between the EU and most African regions remain inconclusive. But what do recent developments imply for the UK's trade and development agenda in 2010? Trade to some extent disappeared from DFID's radar in 2009. While this needs to change, the limits on the ability of the UK and the EU to set policy must be recognised.

The current crisis and its implications for trade and development policy cannot be overestimated. The achievement of duty-free, quota-free access in all developed country markets remains a priority for Least Developed Countries (LDCs) at the WTO. Their efforts should be supported, as future growth in trade opportunities will be driven by new markets and actors, such as China, Brazil and India and other emerging economies. Helping LDCs grasp opportunities in such markets should be a priority.

The Doha negotiations need a new approach. Recognising the central trade role of the major developing countries and working with them for developmental outcomes would give the EU a new role.

New thinking is needed to assist export diversification efforts, going beyond traditional support such as trade preferences. As the EU continues to liberalise, preferential treatment disappears along with its commercial advantages. This loss comes at a bad time for many preference-dependent LDCs and small, vulnerable states (SVEs).

Development policy must find new tools to improve countries' ability to trade. One approach is to increase the value of the remaining preferences;

This policy brief draws on ODI's work on trade:

http://www.odi.org.uk/themes/trade

this could include liberalising the Rules of Origin (ROO) that determine whether a country can take real advantage of a preference that exists on paper. There is also scope for trade preferences on services (such as Mode 4: temporary movement of labour) and trade-related policy.

The EU's Generalised System of Preferences (GSP) scheme needs to be renewed this year and the EC proposes more significant reform later to reflect the new trade responsibilities of the European Parliament. Some modifications are therefore possible now, with a new approach later. For example, the EU could extend to all LDCs and SVEs the same access on services it has given in its Free Trade Agreements (FTAs).

But it is also necessary to identify new tools. It is private rather than public rules that are now the dominant influence on what is imported and how much producers gain from trade. This provides the opportunity for the EC, with its new structure, to use its regulatory powers to benefit development and enhance productive capacity – for example, in relation to product and process standards. If combined with Aid for Trade (AfT), this could offer a more distinctive approach to trade and development that also provides an innovative solution to the issue of preference erosion. Such an approach could foster other positive spillover effects, with suppliers better able to export to other (new) high value markets and move up the value chain.

The EU seems to want to impose social and environmental conditionality on the GSP. However, the commercial advantage provided by most goods preferences is now so low that desired social and environmental changes are unlikely to be undertaken solely on the basis of losing GSP. The EC and EU members need to find better ways to foster public and private partnerships; moving beyond investing in hard infrastructure, but also including softer aspects relating to standards.

Moving forward means taking better and consistent account of developmental concerns in trade and other negotiations. The breakdown in climate change negotiations last year was, in part, motivated by the same concerns that have plagued the Doha round: principles of differentiation. The threat to both the trade and the climate regimes is that if they fail to deal with development effectively, they will be unable to act on the new issues they face. Inconsistent and self-interested national actions will damage the weakest countries most.

The impact of climate change will impose new costs on developing country exporters, especially if markets do not work correctly and international agreements are not well designed. Further progress on a new global climate change agreement later this year at COP16 in Mexico requires coordination with the multilateral trading regime and with development priorities.

There is a need to ensure coherence between trade and climate change financial instruments as both are designed to help countries participate in and adjust to international systems. This includes AfT, as well as other types of compensatory finance mechanisms for commodity exporters.

**Written by Jodie Keane, ODI Research Officer, Trade Policy (j.keane@odi.org.uk), and Sheila Page, ODI Senior Research Associate (s.page@odi.org.uk), with thanks to Christopher Stevens.**

## References

Hewitt, A. (2010) 'A Role for Compensatory Finance in the 21st Century after the 2008 Global Financial Crisis', in M. Nissanke and G. Mavrotas, *Commodities, Governance and Economic Development under Globalization*. Basingstoke: Palgrave Macmillan.

Keane, J.; MacGregor, J.; Page, S.; Peskett, L. and Thornstensen, V. (2009) *Development, Trade and Carbon Reduction: Designing coexistence to promote development.* ODI Working Paper 315. London: ODI (http://bit.ly/ ODIWP315).

Page, S. (2009) 'Trade and the White Paper'. ODI blog (http://bit.ly/sptradewp).

Stevens, C. (2010) Making the GSP fit for the 21st Century. London: ODI (http://bit.ly/euGSP).

Stevens, C., Keane, J. and Markhan, D. (2010) 'Creating a pro-development trade policy in a post-preference world', in *New challenges, new beginnings: Next steps in European Development Cooperation*. DIE, ECDPM, FRIDE and ODI (http://bit.ly/eumemo).

Overseas Development Institute

111 Westminster Bridge Road, London SE1 7JD

Tel +44 (0)20 7922 0300

Fax +44 (0)20 7922 0399

Email publications@odi.org.uk