Response to Call for Evidence

Trade White Paper

14 January 2011

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Trade is a central tool for leveraging the international system for development, and in reducing vulnerability to current and future crises. We welcome the new coalition government's emphasis on the role of trade in stimulating growth, structural change and development. But we also emphasise the need to distinguish clearly between what the *UK can do* and what i*t must do through the EU*.

In response to the specific questions asked in the consultation document, we would like to draw attention to a number of points. The following sub-sections elaborate on each of these points in turn.

1. **With regard to emerging economies and other developing countries**, the UK should seek to facilitate the smooth incorporation of middle income countries (MICs) into the international system, recognize the benefits of trade in goods as well services (including skills), both on the import and export side, and avoid protectionism. In relation to trade, this requires a better understanding of the links between MICs and LICs, and seeking new types of partnerships with them.

2. **In relation to global priorities**, recognising the central trade role of the major developing countries and working with them for developmental outcomes would give the UK, and EU, a new role in the Doha trade negotiations. Beyond increasing the value of existing preferences in traditional markets, traditional donors should offer new preferences in areas such as services and Mode 4, and ensure adequate preparation and compensation for loss of preferences in the form of Aid for Trade. The mantra 'simple, stable and predictable' should apply equally across preference schemes.

3. **On export restrictions**, the regulatory reform agenda which has achieved momentum since the food price crises of 2008 should clearly define any exceptional circumstances that would allow WTO member countries to institute export restrictions. It should also define the trigger mechanisms, the duration and the extent of such measures.

4. **In relation to climate change**, since the WTO does not have provisions to deal with climate change, and the ongoing Doha negotiations do not address it specifically, the current lack of clarity in relation to the structure of the UNFCCC regime post-2012 leaves serious uncertainty about the extent to which the rules of international trade will be coherent with it. Regulatory gaps and potential clashes between the trade and climate change regimes need to be clarified and dealt with, and potential synergies for development identified.

5. **In relation to the continuing proliferation of regional trade agreements**, it is important to note that the UK, as a member of the EU, has been a driver of these developments. Approaches to negotiations for regional trade areas that divide rather than consolidate developing country regions should be avoided.

6. **On the role of the UK Government in other EU policies**, the UK should ensure that reform of the Common Agricultural Policy is ambitious and that poor countries are not made worse off because of it. There are opportunities within the EC, with its new structure post-Lisbon, to use its regulatory powers to benefit development and enhance productive capacity. What is needed is a framework of public regulation that encourages pro-development private rules.

7. **On the role of the UK Government and the private sector,** the UK could play a key role in its provision of aid for trade and engagement of the private sector. This could offer a more distinctive approach to trade and development that also provides an innovative solution to the issue of preference erosion.

1. Better understanding the links between LICs and MICs, and working with them

The last decade has been characterised by shifting patterns of production and trade as the purchasing power of newly industrialised countries and other large emerging economies has started to increase in weight relative to traditional Northern markets. These changing patterns of demand, and supply, have to some extent been accelerated by the impacts of the global financial crisis, and they are beginning to be reflected in global institutions. Large developing countries are taking a more active role in international institutions and global economic governance. This includes the role of the G20 which the UK government should take seriously.

The UK should seek to facilitate the smooth incorporation of middle income countries (MICs) into the international system, recognize the benefits of trade in goods as well services (including skills), both on the import and export side, and avoid protectionism. In relation to trade, this requires better understanding the links between MICs and LICs, and seeking new types of partnerships.

2. Global Priorities

The achievement of duty-free, quota-free (DFQF) in all developed country markets remains a priority for Least Developed Countries (LDCs) at the WTO. Their efforts should be supported, although future growth in trade opportunities will be driven by new markets and actors, such as China, Brazil and India and other emerging economies. The emerging economies have already begun to offer preferences.

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

However, as the history of trade preferences to LDCs to date has shown, there may be limited gains when supply capacity constraints and non-tariff barriers (NTBs), including rules of origin (RoO) are the most binding constraints to exports from LDCs. These barriers are not as easy to redress as tariffs which means due attention should also be given to other supply-side and regulatory constraints, such as standards and stringent RoO which may inhibit the development of regional production networks.

Any new agreement reached on preferences at the multilateral level should also be coupled with adequate support mechanisms for adjustment. An extension of DFQF to LDCs may in the future entail costs for them when Most Favoured Nation (MFN) liberalisation or regional trade agreements (RTAs) erode these preferences. And the surge in RTAs since the 1990s continues unabated. In this sense it is useful to distinguish between the gross and net value of preferences.

Beyond increasing the value of existing preferences in traditional markets, traditional donors should offer new preferences in areas such as services and Mode 4, and ensure adequate preparation and compensation for loss of preferences in the form of Aid for Trade; the mantra 'simple, stable and predictable' should apply equally to preference schemes.

3. Moving beyond the Doha Round at the WTO – the regulatory reform agenda

Moving beyond the achievement of liberalisation at the multilateral level through the current trade negotiations, including DFQF for LDCs, there are new areas where regulation is necessary, as well as a continuing need for enforcement of current rules. Efforts have gathered pace to address regulatory gaps, for example, in relation to exchange rates via getting agreement on trade imbalances by the G20, and on disciplining the use of export restrictions. *Low income countries that have adopted export-orientated growth models need to start adapting to this new trade environment.*

It is important that efforts to patch over the regulatory cracks of multilateralism that have appeared since October 2008 do not add to the development deficit but, rather, seek to redress it. There are risks if the developmental implications of the regulatory aspects of trade under consideration are not also given due attention. This includes new regulations on trade in services and rash decisions made on immigration caps which are bad for the UK and bad for development; the continued risks of new forms of protectionism; and also, with specific reference to trade in natural resources, the banning of import or export restrictions when these may constitute legitimate forms of infant industry protection or appropriate means to protect consumers or the environment for some low income (LICs) and middle income countries (MICs).

The regulatory reform agenda should clearly define any exceptional circumstances that would allow WTO member countries to institute export restrictions. It should also define the trigger mechanisms, the duration and the extent of such measures.

4. Climate Change

On top of the trade challenges to traditional routes towards export diversification for LDCs, for example because of changing North-South trade relations, comes climate change. It means the need to adjust to physical effects, such as increases in global temperatures and decreases in rainfall, but also regulatory changes related to the mitigation of further temperature increases. *The compound effect of all these changes may mean that for some types of low income countries the routes used in the past by others to diversify their export and product base may no longer be viable.*

The importance of trade as a contributor to growth for most low income countries is amplified as a result of limited scale economies in the domestic market, because of small economic as well as geographic size. The export profiles of most LDCs are typically characterized by high degrees of concentration, with only a few tariff lines according for the bulk of export revenue. This profile makes them most vulnerable to demand-side volatility and other shocks, including climatic.

The WTO does not have provisions to deal with climate change, and the ongoing Doha negotiations do not address it specifically. In this context, the lack of clarity in relation to the structure of the UNFCCC regime post-2012 leaves serious uncertainty as to what extent the rules of international trade will be coherent with it.

Lack of clarity at the multilateral level leaves open the scope for countries to resort to various unilateral trade measures, such as import restrictions, border tax adjustments and other production standards to address climate change (or its impacts). On the other hand, climate change regulation may create new opportunities. There are certain structural factors which constrain low income countries efforts to economically diversify. But some new climate-related opportunities might be less sensitive to these.

Ensuring that the LDCs most vulnerable to the physical effects of climate change have access to global carbon markets, and related support, is one way in which export diversification could be achieved: it would represent a new source of income and be linked to a new market. It could represent a new type of trade preference and at a minimum ensure that principles of special and differential treatment (SDT) are maintained between the trade and climate change regimes. Supporting trade in certified low carbon products should be a priority of the trade and climate change regimes; distortive subsides to biofuels and the free allocation of carbon credits should be disciplined.

Policy makers need to address governance issues, regulatory gaps, and potential clashes between the trade and climate change regimes. But they should also explore potential synergies.

5. Regionalism

The UK, as a member of the EU, has been a driver of the proliferation of RTAs in recent years. The UK should reject approaches to negotiations for RTAs that divide rather than consolidate developing country regions.

We recommend the following steps for the UK in working with the European Commission (EC) in order to better overcome the current hiatus in Economic Partnership Agreement (EPA) negotiations, and repair relationships with African, Caribbean and Pacific countries (ACP).

- **Ensuring adequate resources are available to assist with adjustment:** this includes for example, tax reorganization and market development;
- **Addressing new barriers created to regional integration through the signing of interim-EPAs:** some regional economic communities (RECs) were split during the process of negotiation interim EPAs (IEPAs), practical support and a degree of harmonization is required in order to remove barriers created;
- **Reducing the dangers of hub and spoke trade diversion:** by pressing the case for any ACP 'concessions' to the EU to be extended to others (whether through unilateral liberalization or Doha - most efficient - or more RTAs if politically more acceptable);
- **Increasing the value-added of EPAs:** most notably by radically liberalising the RoO within EPAs (i.e. this should go a lot further than the latest EC proposals on its Generalised System of Preferences RoO);
- **Allowing negotiations not yet completed to continue within IEPA institutions** i.e. the negotiations on 'full EPAs' should occur only as part and parcel of the regular ministerial/technical meetings of the institutions that exist on paper in IEPAs.

6. Role of the UK government in EU trade policy

The UK should ensure that reform of the Common Agricultural Policy is ambitious and that poor countries are not made worse off by reform.

It should also be recognized that there are opportunities within the EC, with its new structure post-Lisbon, to use its regulatory powers to benefit development and enhance productive capacity. What is needed is a framework of public regulation that encourages pro-development private rules.

The UK should influence the reform of the EU's trade defence measures, such as use of anti-dumping measures. This could include ensuring that use of anti-dumping is based on realistic price comparisons between market and non-market economies; that all companies with an interest in the EU market have standing in the investigations; and that the overall investigative process is transparent.

7. *Role of UK government and private sector*

The UK could play a key role in its provision of Aid for Trade (AfT) and engagement of the private sector. It could offer a more distinctive approach to trade and development that also provides an innovative solution to the issue of preference erosion. This could include upgrading producers to meet product and process standards, and providing other training, for example on RoO, which could help in raising awareness among exporters in preference receiving countries, as well as importers in the UK.

We have examined the effectiveness of AfT and find evidence that aid for infrastructure services has raised developing country exports, and that aid for trade facilitation has reduced costs in trading (see Cali and Te Velde, 2011). We have also recently assessed the impact of NTBs on intra-regional trade for RECs such as the South African Development Community (SADC). Results suggest the economically smaller members of SADC find NTBs a particular challenge, which may be a result of scale and a limited ability to spread the fixed costs of non-tariff measures over a large export basket, or because of limited conformity infrastructure within country. In light of these results, initiatives aimed at tackling NTBs and their impacts on trade at the regional level become even more important (see Keane et al. 2010).

By partnering with the private sector donors can leverage their own funding and promote private sector development. It makes sense to encourage dialogue between business, donors and governments and to increase participation of the private sector throughout aid project cycles – from informal to formal, and from conception to evaluation. It also makes sense to leverage some private investments and initiatives by linking them to donor projects.

8. *Other*

We are pleased that a trade white paper is under preparation. These documents are appreciated as policy statements that both signal intent to international partners, as well as markers of reform that may enable later assessment as to impact. However, would like to enquire as to whether or not this trade white paper will be complemented by an international development white paper.

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