



The EC Communication on Trade, Growth and Development

– Comment

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There are some interesting ideas and proposals in the European Commission's (EC) new Communication on Trade, Growth and Development. After a decade as a leader in Aid for Trade (Aft), the EU now wants to reform its aid component in trade policy by concentrating it on Least Developed Countries (LDCs). Even if the proposals presented in the new strategy will not amount to a radical overhaul of current policy, they are important signals that the EC now stands ready to spearhead reforms of its own as well as Member States' donations to trade capacity building. For inside-Brussels beltway observers, there are also some interesting nuances in the Communication. The language on a development package in the Doha Round negotiations, for example, differs from previously published strategies insofar as a development package is not explicitly conditioned on success in other negotiating areas.

Finally, the Communication also puts emphasis on some critical aspects of trade and development that often are neglected – for instance the inarguable fact that trade openings by the EU or other economies will not translate into many new trade gains for LDCs unless they reform their economic policy and institutions to a much greater degree than they have so far. Furthermore, it points out that, in many instances, it is not a specific developing country aspect of trade policy that will help boost these countries' trade. What many (but not all) developing countries would benefit from are exactly the same trade reforms that other countries favour other countries undertaking: reduced or eliminated market access restrictions combined with a growth-friendly regulatory environment based on transparency and predictability.

Yet there are few things in the Communication that will catch the attention of key policymakers in developing country capitals or make a difference in those countries' efforts to grow their economies through trade. If the

ambition with the Communication was to put forward a new component in EU trade policy, exclusive to developing countries, it is difficult to reach any other conclusion than that the EC has failed. Rehearsing many strategies from the past six years, since the launch of Global Europe, the Communication rather confirms that specific development aspects of trade policy are low on the agenda and that the EU is not planning to promote them.

This is not surprising. Nor should it necessarily be seen as a deliberative disinterest in promoting development through trade. Events in the past years have pushed the EU to give higher priority to other objectives in trade policy. Four years of crises in the EU – to be followed by what looks like at best anaemic economic growth for the rest of this decade – have strengthened those in the EU who favour a trade policy of a mercantilist (if not protectionist) bent. Together with the collapse of the Doha Round, these crises have provoked the other and less defensive wing of EU membership to pay higher attention to bilateral trade deals with other big economies – trade deals that could help the EU itself to expand trade and economic growth to a significant degree.

There are four concerns with this Communication. First and foremost, it fails to include reforms of EU policy that would have a beneficial effect on developing country exports to the EU. Prime among these absent policies is one related to agriculture. The EU is already operating a one-way free trade policy for LDCs as far as tariffs are concerned. This is a good policy, and the Communication rightly claims the so-called Everything But Arms (EBA) initiative has had a discerning effect on LDC exports to the EU. But developing countries that are not in that LDC group would also benefit from similar access to the EU market – which would probably not have eroding effects on exports from LDCs. And those developing countries, especially the big and populous ones, have more poor people than the LDCs.

Furthermore, there are many other restrictions than tariffs in the agriculture sector. In the agriculture and horticulture sectors, it is not always tariffs that present the biggest problems for potential exporters. Non-Tariff Barriers (NTBs) that are onerous and arcane tend to have a considerable trade-depressing effect. And the EU has not been shy in expanding its NTBs in the agriculture sector. Sanitary and phyto-sanitary (SPS) NTBs have proliferated, frequently through food safety regulations. This is not to say that such regulations are unjustified. The problem, however, is that many of them have been designed in an overly trade-restrictive manner (e.g. recent bans of Brazilian meat and Egyptian seed) and that the risk management process leading to new regulations, or application of regulations, is not very transparent. Moreover, the expansion of the SPS NTBs has led to too high compliance costs for many developing country exporters.

Second, and following on from the last comment on NTBs, the EU fails to understand that many of the new sustainability criteria it has introduced, especially in the farm, food and forestry sectors, have disproportionate effects on many developing countries that cannot comply with the new standards. This is not a black and white issue – and several developing countries should take greater responsibility for sustainability. But the issue here is rather that the EU has or will use ham-fisted restrictions to its own market as tools either to force through changes in developing countries or, as in the case of biofuels, to help to protect local production in Europe at the expense of foreign producers. As far as the Communication has anything to say about new sustainability standards, it presents them as development friendly. This is a distortion of facts – and several developing countries have already called their bluff. But the question remains: will the EU uphold and establish new sustainability standards (as planned) even when they limit production in and export from developing countries?

Third, the EU's specific trade policy towards Africa is limited to concluding the remaining Economic Partnership Agreements (EPAs). Judging by previous attempts to negotiate EPAs, this is an ambition that may prove impossible to meet. The configuration of EPAs seems to have been flawed from the start, but it may be too late to change that now. What the EU can do, however, is help to design a beyond-EPA trade policy, which could include, for instance, ambitions to promote regional trade integration in Africa in selected areas like services.

Lastly, the flagship reform in the Communication – a reform of the GSP – is disingenuous. It fails to convince anyone. It is not grounded in good economic analysis of the role of trade in development. The reform is sold on the premise that export to the EU from countries that will be disqualified from the GSP will be substituted by export from LDCs. That is a very dubious proposition. Rather, the GSP reform looks like a suspicious attempt to put pressures on middle-income developing countries to conclude new free trade agreements (FTAs) with the EU. We are in favour of such agreements, but the GSP system is not the right place for exerting such pressures.

It is understandable that a system of preferences adjusts itself to differences between developing countries. It is also understandable that the EU, like many other countries, is grappling with how to differentiate between developing countries with a small role in the global economy and those with a systemically important role. But adjustment by increasing tariffs on those countries that have enjoyed good economic development (but still have a large share of the population living in poverty) will have negative consequences – for them as well as for the EU.