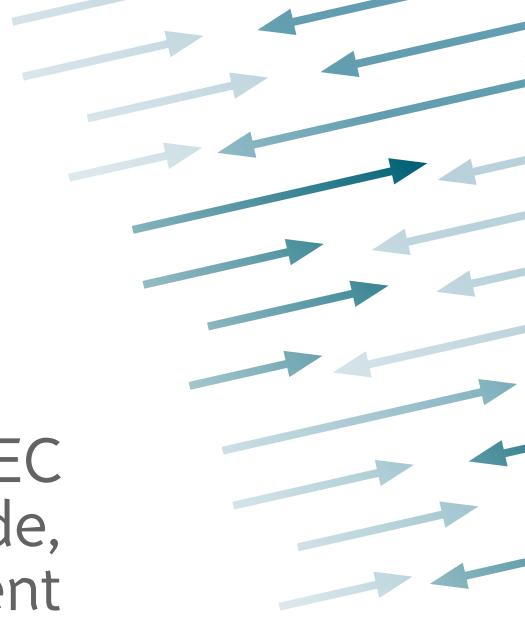




European Development Cooperation Strengthening Programme (EDCSP)

Comments on the EC Communication on Trade, Growth and Development



Pradeep S. Mehta, Bipul Chatterjee and Federico Lupo Pasini

On 27 January 2012, the EC announced its Communication on Trade, Growth and Development for 'tailoring trade and investment policy for those countries most in need'. Overall, the Communication is expected to establish a good platform for the effective use of trade policy to boost economic growth. More than other major players, the European Union (EU) Member States are channelling funding towards Aid for Trade (AfT) initiatives and are already actively pursuing a set of new strategies for trade, growth and development. The following are some comments on this new Communication.

Not enough

It appears that the EU is not making enough effort to promote more effective economic growth in developing countries. Indeed, with the exception of the Generalised System of Preferences (GSP) scheme, most of the tools in EU trade policy are still focused on promoting the liberalisation of strategic sectors in developing countries, rather than creating meaningful market access opportunities for developing countries.

It is undeniably true that developing countries will upgrade their economic status only when they improve the competitiveness of their economies by dismantling monopolies and reducing unnecessary protectionist policies. The EU is correctly encouraging developing countries through its various programmes (AfT, GSP, Free Trade Agreements (FTAs)) to promote domestic liberalisation.

Address the real costs of doing trade

It is not clear why the focus of attention of EU trade policy has not shifted yet towards dismantling the real barriers to trade facing developing countries. For instance, in the new Communication, there is no

mention of trade facilitation. Developing countries urgently need to upgrade their customs and other trade logistics in order to reduce the costs of doing trade. The EU is not doing enough to promote this strategic tool.

The same can be said with regard to other trade-related infrastructure development. More than linking trade concessions to the pursuit of human rights, social or environmental policies (which are nonetheless fundamental components of a sound economy), it is important to associate trade liberalisation with the improvement of transport, customs and logistics regulations.

The EU is becoming more and more active in signing comprehensive FTAs. In most of these, the focus is still on tariff dismantling (especially on the partner country side) and the liberalisation of strategic services sectors (mostly finance and telecommunications). Developing countries need regulatory reforms in almost all sectors, and preferential liberalisation is a good way to push towards this end. In doing so, the EU should give priority to transport, logistics and customs modernisation, rather than focusing just on financial and telecommunication services.

The EU should also open some sectors of its procurement market to FTA partner countries, which could be strategic for developing countries to obtain better access to markets for goods as well as services. This would help many developing countries to improve their competitiveness by obtaining better access to global value chains.

The new GSP policy: will it deliver?

Most market access opportunities are still offered by the GSP scheme. One of the features of the new Communication is the reduction of the scope of the GSP scheme, which will be open only to Least Developed Countries (LDCs) and to countries 'most in need'.

Studies (e.g. EC, 2011) have shown how Middle-Income Countries (MICs) were actually the main competitors of LDCs in their exports to European markets. Indeed, the five largest exporters covered by the GSP scheme (China, India, Thailand, Brazil and Russia) account for more than 67% of all GSP-covered imports to the EU, whereas LDCs account for only 9%.

If the exclusion of emerging economies from the new GSP scheme effectively increases the market share of LDCs, the new policy is certainly to be praised. On the face it, it may sound a good policy to ‘deliver on development’, but this should be evaluated by aligning consumer interests in EU countries and producer (particularly small producer) interests in exporting countries.

Furthermore, the success of this new GSP policy will depend on the scale involved in addressing supply-side constraints in LDCs – this is why there should be an explicit emphasis on trade logistics and other costs of doing trade in the EU’s strategies for trade, growth and development.

Foreign direct investment

Following the Treaty of Lisbon, it is expected that future EU treaties will contain investment chapters that will bind host countries to a certain regulatory standard. The new Communication makes it clear that EU development policy will use investment agreements in order to promote good governance.

In reality, there is little economic evidence of a direct positive link between international investment agreements and Foreign Direct Investment (FDI), and even less so with regard to the promotion of good governance.

On the other hand, international investment agreements are mainly looked at as a tool to protect the interests of capital-exporting countries and, if not properly designed with specific safeguards, can reduce the policy space of host countries with respect to important socioeconomic development objectives and regulatory policies. Encouraging FDI to developing countries is certainly a good policy, but investment agreements may not have any positive influence in this regard. EU countries should encourage FDI by developing the capacity of host countries so they can gradually adopt internationally agreed regulatory standards on trade in services and in government procurement.

References

- European Commission (2011) ‘Impact Assessment of the GSP Regulation’. Brussels: EC.