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COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL AND THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE

Trade, growth and development

Tailoring trade and investment policy for those countries most in need

{SEC(2012) 87 final}

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1. PURPOSE

The world economic landscape has changed dramatically in the past decade, with deep implications for trade, investment and development policies. Historically low tariffs and the reorganisation of international trade along global supply chains increasingly shift the focus of trade policies to regulatory and other behind-the-border issues. Developing countries have gone through radical changes. Some of them, such as China, India or Brazil, have managed to reap the benefits of open and increasingly integrated world markets and are now among the largest and most competitive global economies while others continue to lag behind and risk further marginalisation. Least Developed Countries (LDCs) in particular, mainly in Africa, continue to face many difficulties and are the most off track in the achievement of the Millennium Development Goals.

The notion of "developing countries" as a group is losing relevance as a result and trade, investment and development policies now need to be tailored to reflect this. The issue of development, however, and the specific role of trade for development, remains pressing. The EU has a particular responsibility as the world's largest trading power, the biggest trading partner of many LDCs and other low-income or lower middle-income countries, and the world's largest provider of development assistance (including for trade-related programmes).

Further to the 2010 Communication on Trade, Growth and World Affairs[1], the present Communication updates the 2002 Communication on Trade and Development[2] to reflect changes in economic realities, to take stock of the way the EU has delivered on its commitments and to outline the direction the EU's trade and investment policies for development should take over the next decade. While it confirms the main principles stated in 2002, this Communication stresses the need to increasingly differentiate among developing countries to focus on those most in need, as well as to improve the way our instruments deliver. It also emphasises the need for our developing country partners to undertake domestic reforms and for other developed and emerging economies to match our initiatives to open markets to countries most in need.

This Communication proposes concrete ways to enhance synergies between trade and development policies. Effective trade policy is critical in boosting growth and jobs in Europe and abroad and in projecting EU values and interests in the world. It can also be a powerful

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1 "Trade, Growth and World Affairs: Trade Policy as a Core Component of the EU's 2020 Strategy", COM(2010)612, 9.11.2010

2 "Trade and Development: Assisting Developing Countries to Benefit from Trade", COM(2002)513, 18.9.2002

engine for development, in line with the EU principle of Policy Coherence for Development[3]. Effective development policy is essential in helping create better conditions for trade and investment in developing countries, as well as to ensure equitable distribution of their benefits for poverty eradication. The "Agenda for Change"[4] Communication promises greater support to enhance the business environment, to promote regional integration and to help harness the opportunities that world markets offer, as a driver for inclusive growth and sustainable development. The EU is guided in all its external action by the core values underlying its own existence, including the respect and promotion of human rights[5].

2. A CHANGING WORLD

2.1. The great reshuffle in the world economic order

The world's economy is changing at an unprecedented rate. Many countries have successfully managed the potential of an open trading system to boost their exports of manufactured goods and services relative to traditional commodity exports and to enjoy sustained rates of GDP growth. China has become the world's biggest exporter after the EU and the third largest economy after the EU and the US. India, Brazil and other emerging economies are following a similar path. They have attracted Foreign Direct Investment (FDI) and are now key global investors themselves. Emerging economies are leading world growth and are recognised as major economic and political players internationally. They are strengthening their presence in poorer countries and their links with them. For the first time in recent history, developing countries as a whole account for more than half of world trade. The global economic and financial crisis has accelerated the shift in economic power away from developed countries towards emerging economies, which are now seen as part of the solution to the crisis.

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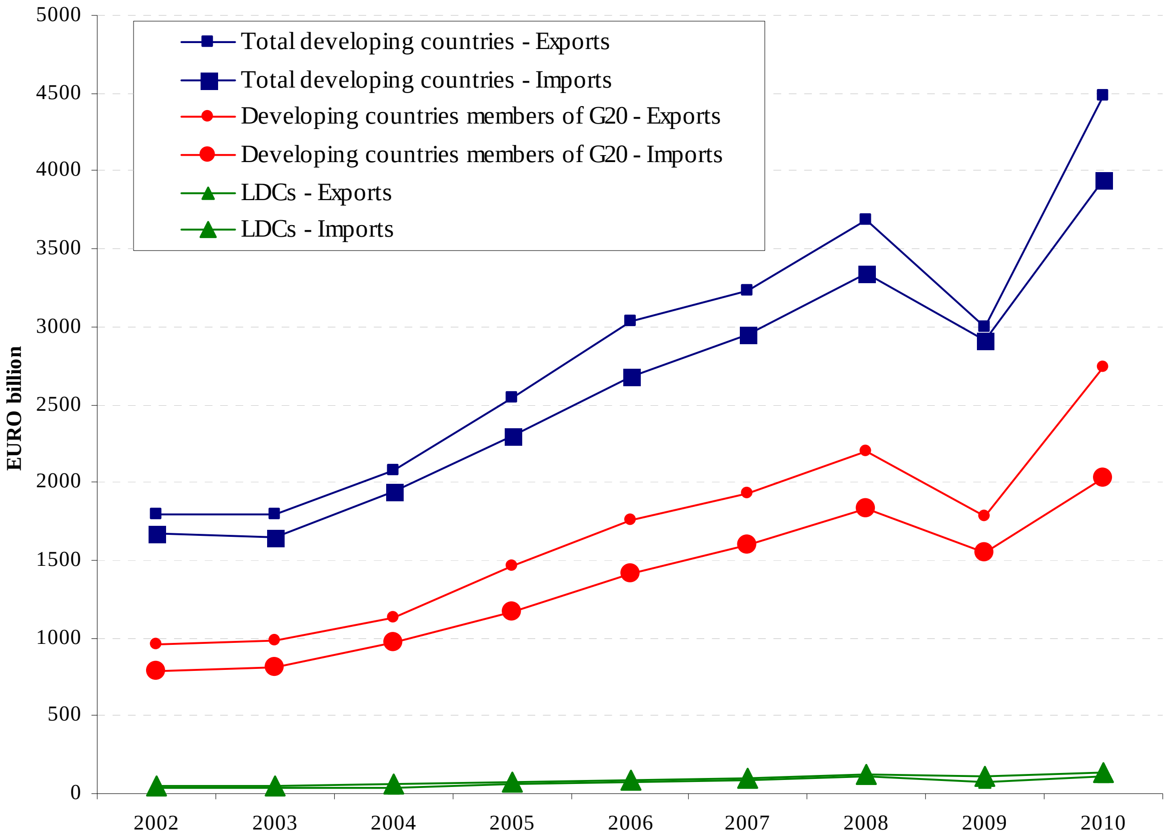
3 Article 208 of the Treaty of the Functioning of the European Union requires the EU to take account of the objectives of development cooperation, the primary one being poverty eradication, in the policies likely to affect developing countries.

4 "Increasing the impact of EU Development Policy: an Agenda for Change", COM(2011)637, 13.10.2011

5 "Human Rights and Democracy at the Heart of EU External Action: Towards a more effective approach", COM (2011)886, 12.12.2011

Developing countries' trade performance



Source: IMF

While these changes have helped to lift hundreds of millions of people out of poverty, not all developing countries have enjoyed such gains. LDCs in particular have been further marginalised[6]. Though GDP and trade have grown significantly in some of them, that is mainly thanks to a surge in oil and commodities exports with limited results in poverty reduction. Many LDCs have become increasingly dependent on a few export products, particularly primary commodities[7]. Nevertheless, some LDCs, such as Bangladesh and Cambodia, have recorded good progress, driven by their specialisation in low technology manufactures, primarily textiles. Some non-oil/commodity-exporting African countries have also done well over the past decade and have even expanded services. Partly as a result of a programme to stimulate exports of agricultural products, such as coffee, and to attract tourism, Rwanda's average annual increase in exports since 2001 has been 19%, accompanied by high rates of economic growth and a steady improvement on human development indicators. Another example is Cape Verde, which graduated from LDC status and reached lower middle-income level in 2007, thanks to good macroeconomic management and governance including progressive trade opening and integration into the world economy.

In-between LDCs and emerging countries, the performance of countries varied, notably in relation to the scope of domestic reforms and their integration into the world economy.

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6 Collectively, they account for 0.6% of world GDP in 2010, against 0.7% in 2000.

7 On average, three export products make up more than 75% of all their exports. In 8 LDCs this share is above 95%.

2.2. Lessons for trade and investment policies for development

Openness to trade has been a key element of successful growth and development strategies. No country has ever been able to sustain long-term growth without integrating into the world economy. Access to markets abroad enables greater economies of scale and specialisation, while access to cheaper and more varied inputs, including more efficient services, opens up new production possibilities. FDI has also become an essential contributor to economic growth and export performance (for example foreign affiliates today account for 75% of China's trade). Openness for mobility of people can contribute to the transfers of skills as well as investments to developing countries, especially bearing in mind the role of diaspora communities[8].

However, while trade is a necessary condition for development, it is not sufficient. Trade can foster growth and poverty reduction, depending on the structure of the economy, appropriate sequencing of trade liberalisation measures and complementary policies. Domestic reforms are essential to sustain trade- and investment-led growth. The economic performance of LDCs is often impeded not just by poorly diversified economies and export bases, inadequate infrastructure and services or a lack of adequate skills but also by political factors linked to poor governance, corruption and fraud, lack of human rights protection and transparency, weak administrative capacity, inefficient taxation policies and wide-scale tax evasion, insufficient redistributive instruments, weak social and environmental policy frameworks, unsustainable exploitation of natural resources, security threats and lack of stability.

Making trade work for development requires much more than lowering tariffs. Modern and pro-development trade policies need to address a complex range of issues, ranging from trade facilitation at local and regional level to technical, social and environmental regulations, respect of fundamental rights, investment supporting measures, protection of intellectual property rights, regulation of services, competition policies and transparency and market access in government procurement. Progress on these issues can boost transparency, predictability and accountability, which are essential for inclusive development and poverty alleviation and which tariff cuts alone cannot provide. Finally, active policies are needed to minimise adverse effects of trade opening.

The growing diversity of developing countries calls for more differentiation in the design and implementation of EU policies. Emerging economies and poorer ones have different potentials, needs and objectives thus requiring a different policy approach. Policy must be carefully designed to reflect different situations. Priority must go to countries that would have limited prospects of long-term growth and sustainable development without external assistance, particularly LDCs and other countries most in need, in line with what has been proposed in the development policy field[9]. In parallel, we are stepping up our engagement with emerging economies, as mentioned in the 2010 Trade, Growth and World Affairs Communication. But our relationship with them is changing in nature, focusing less on

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[8] "The Global Approach to Migration and Mobility", COM(2011)743, 18.11.2011 and proposal for the Directive on conditions of entry and residence of third-country nationals in the framework of an intra-corporate transfer, COM(2010) 378, 13.7.2010

[9] COM(2011)637

development and more on new forms of partnership based on mutual interests and benefits, as well as evenly-shared global responsibilities[10].

3. What we have done so far

The 2002 Communication on Trade and Development made commitments to grant developing countries greater access to the EU market, to provide adequate funding for trade-related assistance, and to make trade a central part of development strategies. The commitments included using trade agreements to promote greater market access, to support regional integration and to improve trade rules to help promote development. The EU market is the most open to developing countries. Fuels excluded, we import more from LDCs than the US, Canada, Japan and China put together. We have delivered on our commitments, often leading the way at the global level. Further progress is, however, needed.

3.1. Innovative autonomous schemes

We have set up two new preferential schemes as part of the Generalised System of Preferences (GSP)[11]:

- **The Everything But Arms (EBA) initiative in 2001 was radical in fully opening the EU market to LDCs without any tariff or quota**. Ten years later, EBA has proved to be an effective engine for boosting LDC exports to our market. EU imports from LDCs grew more than 25% faster than imports from non-beneficiaries of preferential regimes (Bangladeshi textile exports being a salient example)[12]. On the other hand, the impact on export diversification is mixed. Utilisation rates can still be improved. Competitive pressure from more advanced preferential partners (which absorb more than 40% of preferential exports under GSP) and preference erosion have become stronger, indicating a need to reform the GSP system (see 4.1.1).

- **The GSP+ scheme set up in 2006 is a highly innovative tool of EU trade policy in support of sustainable development, specifically targeting vulnerable developing countries**. Its additional preferences provide a powerful incentive to countries committed to implementing core international conventions on human rights, labour rights, environmental protection and good governance. There are currently 16 beneficiaries[13] and the scheme has boosted their exports to the EU, with commensurate benefits in income for virtually all of them. A challenge for the future is to broaden access criteria and incentives, and to bolster monitoring of effective implementation of the core international conventions.

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[10] European Council Conclusions, 16.09.2010

[11] The GSP scheme was itself reviewed in 2006 to cover more products, simplify rules and enhance predictability. The reform boosted beneficiary countries' exports and FDI, and supported export diversification of many countries.

[12] CARIS, *Mid-term evaluation of the EU's GSP*, 2010

[13] Armenia, Azerbaijan, Bolivia, Cape Verde, Colombia, Costa Rica, Ecuador, El Salvador, Georgia, Guatemala, Honduras, Mongolia, Nicaragua, Panama, Paraguay, Peru

We have also made substantial efforts to facilitate the use of existing preferential schemes:

- **The new GSP rules of origin applicable since 2011[14] address the criticism that rigid rules of origin inhibit developing countries from making full use of EU preferences**. The new rules are simpler and easier to comply with. They offer extended possibilities of sourcing, with new opportunities for regional and trans-regional cumulation between countries. LDCs benefit from further flexibilities, beyond levels offered by most other developed countries in their own GSP-type schemes. Improved rules have also been proposed in Economic Partnership Agreements (EPA) negotiations (see 3.3).

- **In 2004, the Commission opened an on-line service for potential exporters in developing countries on practical aspects of gaining access to the EU market – the Export Helpdesk**.[15] The service provides detailed information on EU import tariffs, rules of origin, customs procedures, technical requirements, etc. This is a unique tool worldwide, though usage in LDCs could be increased.

3.2. Leading on Aid for Trade (AfT)

- **The EU and its Member States have been driving global AfT efforts, accounting for more than a third of global flows.** In 2007, the EU adopted a joint strategy with EU Member States. We have doubled our efforts, reaching €10.5billion in 2009, above our targets. More than a third of EU development aid now supports trade-related needs. However, we are concerned that LDCs receive only a limited share of AfT (22%). We have worked to enhance effectiveness by promoting a better match with trade opportunities, including through increased international coherence and monitoring, although we recognise that here too further progress is still needed.

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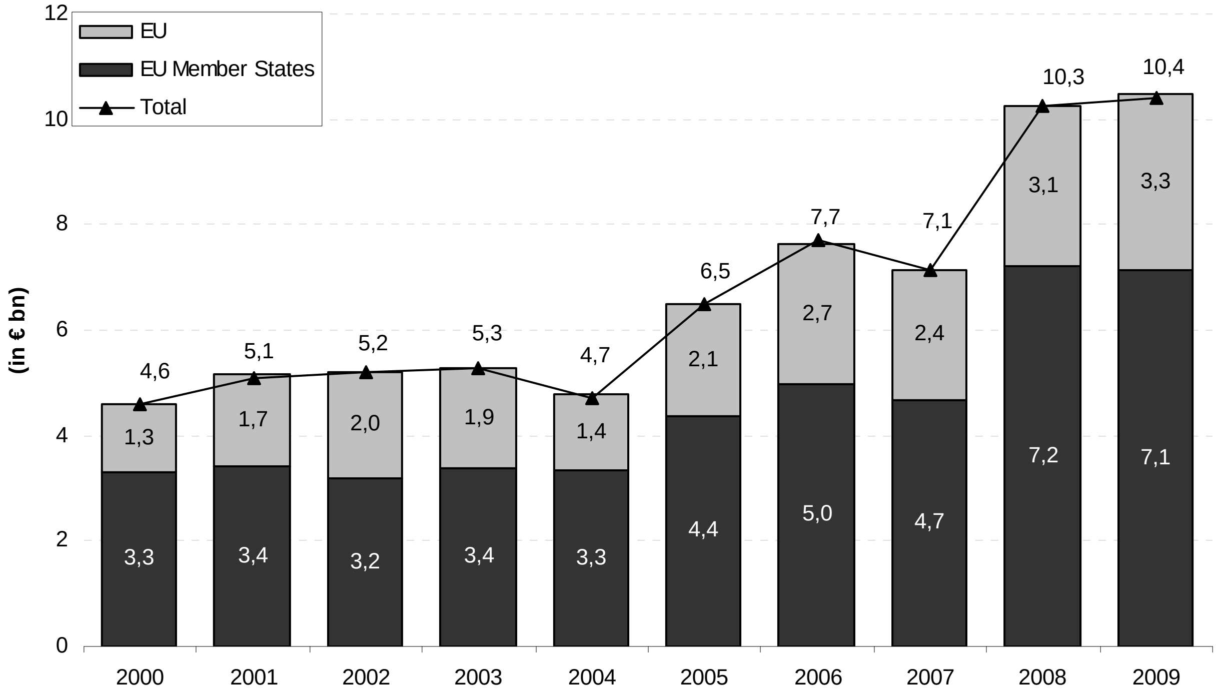
[14] Council Regulation (EC) No 1063/2010, 18.11.2010

[15] www.exporthelp.europa.eu

Collective EU Aid for Trade (EU and EU Member States)



3.3. Renewed bilateral and regional efforts

Further to the Cotonou Agreement, negotiations started in 2002 with African, Caribbean and Pacific (ACP) countries to conclude Economic Partnership Agreements (EPAs). A comprehensive, regional EPA has been signed and provisionally applied with the CARIFORUM group of States in the Caribbean. We have negotiated interim EPAs with other countries and regions to ensure continuity in trade in goods once the Cotonou preferences expired at the end of 2007. Negotiations for enhanced agreements now continue with all regions. Pending ratification of interim EPAs, temporary measures were adopted in December 2007[16]. In September 2011, the Commission proposed to maintain these market access arrangements after 2013 only for those countries that are taking the necessary steps towards ratification of their respective EPA[17].

In 2006, the Global Europe Communication[18] launched a new series of Free Trade Agreements (FTA) negotiations with more advanced developing countries and regions. Talks are on-going with India and Mercosur. Because of slow progress under the region-to-region approach with ASEAN, negotiations are now advancing bilaterally with Singapore and Malaysia. We have also concluded negotiations on comprehensive FTAs with Peru, Colombia and Central America as well as with Ukraine.

The EU has consistently sought to promote regional integration, notably as a means of overcoming the drawbacks of small and fragmented markets, to make countries more attractive to FDI and to spur economic growth. Our agreements with Central America and CARIFORUM have strongly supported regional integration processes, but we realised the need to adjust our approach where political will or regional capacity were not strong enough.

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16 Council Regulation (EC) No 1528/2007, 20.12.2007

17 COM(2011)598, 30.09.2011

18 "Global Europe: Competing in the World", COM(2006)567, 4.10.2006

In some instances, we have to move forward on a bilateral basis as an intermediary step towards the longer-term objective of region-to-region agreements in ways that do not prevent other regional partners from joining when ready. We have dedicated substantial funding to regional integration, although results have often fallen short of expectations. A key difficulty is the limited capacity of regional organisations to formulate project proposals that are viable and supported by their members.

3.4. Mixed global picture

The EU was instrumental in launching the Doha round of multilateral trade negotiations in 2001. However, ten years of negotiations have failed to deliver a deal. Even an interim agreement on a package of measures for the poorest countries seems elusive. We have made considerable efforts to move negotiations forward, including through tabling unprecedented offers with significant advantages to developing countries, be it in terms of market access or disciplines on agricultural subsidies. We have repeatedly made compromise proposals. But structural difficulties combined with the lack of commitment of some WTO members have meant it has not been possible to come to an agreement on key parameters.

The commitment at the outset of the global economic and financial crisis to refrain from protectionism, which the EU strongly advocated, was more successful, though vigilance is still required[19]. The EU also supported the integration of several developing countries into the WTO (e.g. recently Samoa and Vanuatu).

4. TASKS FOR THE NEXT DECADE

Building on recent achievements and efforts but also learning from experience where progress has not been as successful as hoped, the EU will step up efforts to help those countries most in need to reap the benefits of increasingly integrated world markets. However, this success will primarily depend on developing countries' ownership and readiness to undertake the necessary domestic reforms. There is much to be done in the multilateral framework, where our efforts on behalf of countries most in need have yet to be matched by other major trading powers.

4.1. What Europe can offer

The EU must focus its efforts on the poorest and most vulnerable countries and make sure those efforts are tailored to their needs and constraints, while ensuring coherence and complementarity between trade, development and other policies.

4.1.1. More focused preferences

The Commission has proposed a reform of the GSP scheme to make sure corresponding preferences benefit those countries most in need[20]. The review takes into account the growing differences between developing countries and their disparate needs, and suggests reviewing eligibility criteria and graduation mechanisms to ensure that only LDCs, low- and lower-middle income countries actually benefit from the system in sectors where help is

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[19] See EU's Eighth Report on Potentially Trade Restrictive Measures (October 2010-September 2011): http://trade.ec.europa.eu/doclib/docs/2011/october/tradoc_148288.pdf

[20] COM(2011)241, 10.5.2011

needed. Predictability for economic operators will also be enhanced, based on an open-ended scheme and more transparent procedural steps for necessary adjustments, with appropriate transition periods.

A package to promote trade for small operators in developing countries

Small businesses form the backbone of the economies of many developing countries, notably the vast informal sector and they disproportionately suffer from complex administrative procedures, and a lack of information, training, connections or access to finance. In order to address these concerns, the following initiatives will be considered:

- **Extend practical information on trade policies and market information**. As a complement to the EU Export Helpdesk, we will support a multilateral initiative on transparency in trade to provide similar information on all markets. This is especially useful for South-South and regional trade.

- **Facilitate the use of intellectual property tools by small producers and farmers** to help them maximise the economic value of their goods, through developing and protecting product identity and quality, using trade marks, geographical indications and designs[21].

- **Train networks of diaspora small traders in the EU** (e.g. on trade procedures, standards, access to finance) to make a positive contribution to development in their countries of origin.

- **Promote dialogue with Small and Medium Enterprises** within the SME Finance Forum on Africa established in 2011 and the Memorandum of Understanding signed with the Africa Union Commission on 30 November 2011.

- **Facilitate access to finance for small exporters/traders from developing countries**. We are ready to support the work of international financial institutions in this area as well as the needs review that the G20 is undertaking in low income countries[22].

- **Extend the simplified procedure for obtaining proof of origin**. Trade preferences are relatively less used for small transactions, partly due to the high cost/benefit ratio of obtaining a certificate of origin. The 2011 reform of rules of origin for GSP allows for a simplified procedure based on self-certification for all consignments, based on prior registration by the exporter. If this system works well, we will consider extending it to other preferential arrangements.

- **Support participation of small businesses in trade schemes that secure added value for producers, including those responding to sustainability** (e.g. fair, ethical or organic trade) and geographic origin criteria in development cooperation with third countries. This can be an effective way for producers to differentiate their product, have greater bargaining power over them and gain price premiums.

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[21] See upcoming Communication from the Commission "Strategy for the protection and enforcement of intellectual property rights in third countries"

[22] Cannes Summit of the G20 - Final Declaration, “Building Our Common Future: Renewed Collective Action For The Benefit Of All”, 4.11.2011

4.1.2. Better targeted Aid for Trade

We will continue to encourage developing countries to include trade in their development strategies. In this context, AfT can be instrumental and we will continue our efforts to further improve its programming and delivery.

- **Improve complementarity between trade and development policies**: When trade policy measures create increased opportunities for our developing partners (e.g. EPAs, the new GSP, new rules of origin), we will be ready to offer AfT to help them take advantage of them. Instruments such as sector-wide programmes or budget support could assist with economic reforms needed to be able to take advantage of trade and investment opportunities[23]. Besides geographical programmes, new thematic programmes could be used to accompany trade openings[24].

- **Focus on LDCs.** We should maintain effective support to strengthen capacities for the identification, prioritisation and implementation of AfT, building on the multi-donor developed Enhanced Integrated Framework, which supports LDCs to develop trade.

- **Focus on small operators**. We should ensure that small operators including rural smallholders have appropriate access to AfT to facilitate their involvement in external markets.

- **Step up economic partnerships, regulatory dialogues and business cooperation**. Sharing EU experience can help our partner countries manage their domestic reforms (see 4.2) and access the EU market. The new Partnership Instrument the Commission has proposed can support such initiatives in particular in emerging economies and help foster new forms of cooperation in countries graduating from bilateral development assistance.

- **Review our approach in supporting regional integration**. While continuing to focus on capacity building of both regional and national administrations in charge of integration, we should tackle these issues more strategically in our political dialogue with developing countries. Specific AfT regional programmes could be designed for trade facilitation and connectivity. Where regional organisations are streamlining their composition so as to better reflect economic and political realities, we stand ready to support them.

- **Equip people for change**: Policies in relation to skills and education, labour rights and social protection are particularly relevant for the poorest and most vulnerable segments of the population, including women and children, in particular in relation to trade reforms. This dimension must therefore be fully integrated in the EU's

[23] "The Future Approach to EU Budget Support to Third Countries", COM(2011) 638, 13.10.2011

[24] The thematic programme for "global public goods and challenges" of the Development Cooperation Instrument proposed by the Commission in "Global Europe: A New Approach to financing EU external action " COM(2011) 865, 7.12.2011 foresees inter alia the support to the definition and implementation of trade policies and agreements, assistance to integrate into the multilateral trading system, promoting investment relations between the EU and partner countries and regions.

development cooperation, in line with its continuing support for decent work, human rights and social protection[25].

- **Improve aid effectiveness**: Delivery of AfT should follow principles and commitments agreed in the High Level Fora on aid effectiveness[26]. As agreed during the Busan Forum, AfT should focus on outcomes and impact, to build productive capacities, help address market failures, strengthen access to capital markets and to promote approaches that mitigate risk faced by private sector actors. Better coordination among EU donors is essential. Improving cooperation with non-EU traditional or emerging donors will also be needed. As also agreed in Busan, we will focus on implementing the commitments at country level and support the new inclusive Global Partnership for Effective Development Cooperation[27].

4.1.3. Complementary instruments boosting FDI

While FDI in and from developing countries has surged in the past decade, it has largely evaded the countries most in need due to poor economic prospects and unfavourable investment conditions. Investors need stable, transparent and predictable regulatory environments. The EU can help improve the business environment through AfT and a range of FDI-related instruments, now extended by the Lisbon Treaty, which has brought investment under the framework of the EU commercial policy, an exclusive competence of the EU[28].

- **Provisions in EU FTAs grant investors greater legal certainty** regarding market access and the conditions under which they are allowed to operate. We include sectors (e.g. telecommunications, transport, banking, energy, environmental services, construction and distribution) that help build an enabling environment for business and develop infrastructure. The EU shows flexibility and sensitivity to our partners' needs in these negotiations: only sectors explicitly listed are covered, and the right of countries to regulate and to enter limitations and restrictions is preserved.

- **Investment protection granted by Bilateral Investment Treaties (BITs) can also enhance FDI potential**, as such protection provides additional guarantees and increases legal certainty for investors. EU Member States already have a large network of BITs with developing countries. We intend to deploy investment protection agreements at EU level in a progressive manner, either as part of on-going FTA negotiations or as stand-alone agreements. We are ready to look into requests from developing country partners interested in this possibility.

- **EU blending mechanisms can be used to leverage domestic and foreign investment in developing countries[29]**. Grants would be combined with e.g. loans or

[25] COM(2011)637

[26] Rome 2003, Paris 2005, Accra 2008, Busan 2011

[27] Busan Partnership for Effective Development Co-operation, Fourth High Level Forum on Aid Effectiveness, Busan, Republic of Korea, 29.11.2011-1.12.2011

[28] In its Communication "Towards a comprehensive European international investment policy", COM(2010)343, 7.7.2010, the Commission has outlined the objectives of the EU's future investment policy.

[29] Such as the EU-Africa Infrastructure Trust Fund, the Neighbourhood investment facility and the Latin America investment facility and the Investment facility for Central Asia

risk capital to support the financial viability of strategic investments. We will aim at a higher share of aid to be delivered through such innovative financial tools under the new financial instruments covered by the multiannual financial framework for the period 2014-2020[30]. The use of such financial instruments will be assessed case by case in countries where debt sustainability is fragile. Other instruments that will be considered include guarantees, private equity and public-private partnerships. Cooperation will be sought with the European Investment Bank and Member States' or other development finance agencies. Greater coherence is also needed with trade and investment agreements.

4.1.4. Comprehensive and modulated bilateral/regional agreements

Pursuing the Global Europe agenda[31], we will aim for comprehensive FTAs and continue to take into account the level of development of our partners, offering flexible approaches tailored to their needs and the capacities of each country.

We will seek to conclude EPA negotiations with all interested ACP countries and regions, in line with the Cotonou Agreement's objective to support deeper regional integration, modernise our economic relationship and use trade to boost economic growth. Time is of the essence to finally provide certainty and predictability to operators. The sooner such deals are struck, the earlier they will start delivering development benefits[32]. If ACP countries so choose, EPAs will include commitments on services, investment and trade-related areas, identified in the Cotonou Agreement as important drivers of growth. If comprehensive and regional agreements prove to be out of reach, variable geometry or multiple-speed agreements can be introduced. We confirm our offer of free access to the EU market and improved rules of origin for those ACP countries that have in the past received Cotonou trade preferences, while the ACP countries liberalise partially and gradually. We have tabled and remain open to fine tune pragmatic solutions to the remaining obstacles in the negotiations, guided by the fundamental principle that the resulting EPAs must live up to the vision of the Cotonou Agreement to promote the development in ACP countries and regions. Countries not ready to assume the obligations of WTO-compatible trade agreements can opt to benefit from the GSP, if they are eligible. However, this would not offer the same development potential as EPAs, particularly in terms of regional integration, enhanced investment and improved business environment.

In response to the Arab Spring, the EU has also announced a partnership for democracy and shared prosperity going far beyond market access to further deepen integration with countries in the Southern Mediterranean and promote human rights, good governance and democratic reforms[33]. We will open negotiations for Deep and Comprehensive FTAs with Egypt, Tunisia, Jordan and Morocco. We will also build closer trade ties with Armenia, Georgia and Moldova in our Eastern Neighbourhood. The ultimate aim is to help establish an area of shared prosperity, offering to countries in both regions the prospect of participating in the EU internal market when conditions are met[34].

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30 COM(2011)865

31 COM(2006)567, 4.10.2006

32 Once ACP countries have concluded an EPA, other ACP countries can of course seek accession.

33 "A Partnership for Democracy and Shared Prosperity with the Southern Mediterranean", COM(2011)200, 8.3.2011

34 "A new response to a changing Neighbourhood", COM(2011)303, 25.5.2011

4.1.5. A values-based trade agenda to promote sustainable development

One of the basic objectives of the EU is to ensure that economic growth and development go hand in hand with social justice, including core labour standards, and sustainable environmental practices including through external policies. Such efforts are particularly relevant in a development context, in which countries face significant challenges.

The GSP+ scheme is the flagship EU trade policy instrument supporting sustainable development and good governance in developing countries. The Commission has proposed to make it more attractive by eliminating graduation for its beneficiaries, relaxing economic entry criteria and allowing countries to apply at any time. At the same time, monitoring and withdrawal mechanisms will be reinforced to ensure effective implementation of the commitments entered into by beneficiary countries.

Recent EU FTAs systematically include provisions on trade and sustainable development. The aim is to engage partner countries in a cooperative process involving civil society as well as to strengthen compliance with domestic and international labour and environmental standards. Provisions also allow for independent and impartial review. As these agreements enter into force, we will have to make sure that these mechanisms are effectively used and provide appropriate support in our development cooperation.

We are committed to better assessing the impact of trade initiatives on the EU and its trading partners, including developing countries[35]. We will ensure that the analyses carried out when a new policy is developed (impact assessments), while an agreement is being negotiated (sustainability impact assessments) or implemented (ex-post analyses), address all significant economic, social, human rights and environmental impacts, and build upon a wide consultation of relevant stakeholders. Such analyses should also help design accompanying AfT measures.

We adopted measures to promote the sustainable management of some key natural resources such as timber and fish traded into the EU[36] **.** We will assist our developing partners in the implementation of these schemes so that they maximize their potential for sustainable growth. We will also cooperate with other countries which are important markets for natural resources to promote similar standards.

We will promote the elimination of tariff and non-tariff barriers on goods and services that can deliver environmental benefits. This will support our efforts to ensure improved access to green technology for developing countries.

Trade incentives arise not only from government action, but also from a shift in the market place towards more sustainable products. Private sustainability-bound schemes (e.g. fair, ethical or organic) can be an effective way to foster sustainable and inclusive growth in developing countries[37]. Public authorities can promote these initiatives. We will strengthen our support for developing country producers taking part in sustainable trade

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[35] COM(2010) 612

[36] "Timber Regulation" (EP/Council Regulation (EU) No 995/2010 20.10.2010) and "Regulation against Illegal, Unreported and Unregulated (IUU) fishing" (Council Regulation (EC) No 1005/2008, 29.10.2008)

[37] "Contributing to Sustainable Development: The Role of Fair Trade and Non-governmental trade-related Sustainability Assurance Schemes", COM(2009)215, 05.05.2009

schemes by further mobilising cooperation, including AfT measures, improve monitoring of related activities and continue to encourage our partner countries to promote fair and ethical trade. We also intend to further facilitate fair and ethical purchasing choices by public authorities in Europe in the context of the upcoming review of public procurement directives.

Corporate social responsibility also plays an increasing role at the international level as companies can contribute to inclusive and sustainable growth by taking more account of the human rights, social and environmental impact of their activities. We encourage companies to sign up to the internationally recognised guidelines and principles in this area[38], such as the OECD Guidelines for Multinational Enterprises, and our trading partners to adhere to them. We also include provisions in our agreements to promote responsible business conduct by investors.

4.1.6. Helping vulnerable countries improve their resilience and response to crisis

LDCs and other vulnerable countries are more prone to crises, which can jeopardise their long-term development efforts, in particular for those with a primarily export-led growth strategy, as global commodity price shocks or domestic natural disasters can induce severe balance of payments difficulties should export revenues decline or imports costs soar. We can help to enhance resilience to external shocks and response capacity:

- **Natural disasters can have major disruptive impacts on supply chains, trade and economic activity**. Following the floods of July 2010, the EU proposed granting additional preferences to Pakistan, but the experience showed that this approach did not trigger a swift enough reaction. It also caused concerns as to the possible trade diversion impact on other poor countries. In future, we will seek to use the temporary derogations to rules of origin requirements for crisis-affected countries in the new GSP rules of origin. To improve preparedness for natural disasters, we will seek to factor trade vulnerabilities into the needs assessments undertaken in the context of EU humanitarian aid policy. The EU is also helping to develop innovative index based weather risk insurance in partner countries and we can learn from successful examples of shifting weather related risks to the financial market, for instance through the use of catastrophic bonds to hedge against the financial risk to the government budget associated with an earthquake.

- **Several developing countries are plagued by conflicts, which are often linked to the control of natural resources**. The Commission has tabled draft Directives to promote disclosure of payments to governments for the extractive and forestry industries both for companies listed on EU stock exchanges[39] and for other large EU companies[40]. This is a first step towards a more transparent investment environment that can reduce the risk of corruption and tax avoidance. Building on the experience of the Kimberley process, the Extractive Industries Transparency Initiative (EITI), the Forest Law Enforcement, Governance and Trade (FLEGT) and the Timber Regulation, we will also explore ways of improving transparency throughout the

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38 "A renewed EU strategy 2011-14 for Corporate Social Responsibility", COM(2011)681, 25.10.2011

39 Directive 2004/109/EC of the European Parliament and the Council of 15.12.2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC

40 Proposal for a directive on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, COM(2011)684

supply chain, including aspects of due diligence. At the same time, we will advocate greater support for and use of the recently updated OECD Guidelines for multinational enterprises, and OECD's recommendations on due diligence and responsible supply chain management – something we need to promote beyond OECD countries as well. In parallel we will continue to cooperate with and provide support to developing country partners on sustainable mining, geological knowledge and good governance in natural resources management[41].

- **Commodity price volatility has implications for government budgets of partner countries.** We can help partner countries make use of market-based insurance mechanisms, like the commodity futures market, to hedge against revenue shortfalls. Building on the Vulnerability Flex Mechanism (V-FLEX) set up in 2009 to help mitigate the effects of global food and financial crises on ACP countries, we will work to set up a new shock-absorbing scheme focusing on broader exogenous shocks with a cross-country dimension[42].

4.2. Domestic reforms and good governance are key to trade-led growth

The main impulse for economic growth is first and foremost domestic. Good governance is vital for private sector development and any sustained trade- and investment-led growth. It starts with stable political institutions and practices, an independent judiciary, protection of human rights, transparency of public finances, rules and institutions and a strong stance against fraud and corruption. Policies, regulations and institutions supporting the development of the private sector, decent jobs and export competitiveness are also crucial. Domestic reforms are needed to improve supply capacity and capital endowment (including human capital), to reduce transportation costs, to increase farm and industrial productivity, improve the implementation record of certain labour and environmental standards and to enhance the investment climate. They are essential to mitigate potential losses in tariff revenue and to allow for necessary adjustments through efficient taxation and redistribution tools and safety nets. They are crucial to transform the gains of economic growth into effective poverty eradication.

External assistance and trade agreements can support this process. Reformers in many countries are actually seeking to conclude bilateral or regional trade agreements to anchor their own domestic agenda and lock in domestic reforms. To be effective, such agreements need to include rules that promote transparency, predictability and accountability.

Ownership is a critical condition for success. Solutions cannot be imposed from outside. Ultimately, developing countries must make their own choices. Peru and Colombia, Central America and CARIFORUM countries have gone for a qualitative change and concluded ambitious agreements with the EU that induce structural changes in their economies rather than relying on unilateral trade preferences. These agreements will help consolidate some of the most important reforms that countries in Latin America have carried out since the time of import substitution policies. This is a clear example of the importance of political will over level of development as countries such as Honduras, Nicaragua or Haiti are not among the wealthiest.

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41 Communication on commodity markets and raw materials, COM(2011) 25, 2.2.2011

42 Multiannual financial framework regarding the financing of EU cooperation for ACP States and Overseas Countries and Territories for the 2014-2020 period (11th European Development Fund)

4.3. The multilateral agenda until 2020

A strong multilateral trading system is vital to developing countries' long-term interests both for its rulebook and for the market access it guarantees in all key markets. Markets are increasingly located in developing countries themselves. Indeed, for the first time in recent history, South-South trade outweighs North-South trade, even though barriers to South-South trade are significantly higher than for access to developed countries' markets[43]. Multilateral negotiations are therefore essential. We must get on-going negotiations to deliver, establish a firm basis for future negotiations and refine the multilateral system to make trade work even more effectively for development.

4.3.1. <u>Delivering on the development dimension of the Doha Development Agenda (DDA)</u>

The multilateral agenda remains a priority for the EU. The DDA is in serious deadlock but holds too much potential for developing countries in general and LDCs in particular to be abandoned. The EU remains committed to the DDA and to the specific package for LDCs. We believe the WTO membership should pursue negotiations where feasible in 2012 and onwards, to include for example mandated topics such as trade facilitation, non-tariff barriers and dispute settlement, all of which have a significant development dimension.

An agreement on trade facilitation offers substantial development benefits by ensuring coherent reforms in all WTO members to facilitate trade both domestically and in export markets. While all WTO members stand to benefit, this would be particularly useful for developing countries, especially the landlocked countries among them. Implementation would be tailored to the needs and capacities of each country and supported, where required, by external assistance. All stand to gain from early conclusion of these talks.

We will keep pushing for concrete results that benefit LDCs. We cannot be satisfied by continued failure among WTO members to implement existing decisions on Duty Free Quota Free access, which are essential to create new, secure trade opportunities for LDCs. It is also important to reach a positive outcome on cotton in the agriculture negotiation. Building on our recent reform of rules of origin, we will push for greater coherence in preferential rules of origin for LDCs, including greater transparency, simplicity and improved market access. The services waiver for LDCs, adopted at the Eighth WTO Ministerial Conference in December 2011which allows WTO members to grant preferential market access to LDCs in the area of services, is a first step towards an LDC package.

Apart from the DDA negotiations, and to allow as many countries as possible to benefit from the system, we will continue to support and facilitate the accession of LDCs to the WTO and actively contribute to the revision of accession guidelines so that appropriate recommendations be made to that effect by July 2012. The accession path is a useful process and a driver of reforms, but it is often long and demanding. Whilst preserving the integrity of WTO rules, we will continue to exercise due restraint as regards market opening and we will assist LDCs in enacting and implementing new disciplines. Also when examining the needs and requirements of LDCs in relation to implementation of the WTO agreement on trade-related intellectual property rights (TRIPS), we will give favourable consideration to

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[43] Almost three times higher in the estimation of P. Kowalski and B. Shepherd (2006), "South-South Trade In Goods", OECD Trade Policy Working Papers, No. 40

requests for the extension of the previous implementation deadline of 2013, as well as appropriate technical assistance.

4.3.2. Setting a firm basis for the future

Our absolute priority must be to preserve and strengthen the multilateral trading system. Any weakening of the WTO would be to the detriment of its smallest and weakest members. This is particularly acute in times of crisis, when the temptation to resort to protectionism is high.

The current impasse in the DDA reveals a fundamental weakness in the WTO setting, which has not evolved as quickly as economic realities. The major shift in the relative economic power among major trading partners has not yet been fully reflected in the WTO system. There is a growing imbalance between the contribution that large emerging countries make to the multilateral trading system and the benefits they derive from it. This is increasingly felt in poorer countries which see the gap between them and emerging countries widening. Already tangible when the DDA was launched, this tendency has grown significantly since, and is set to go on doing so in future.

The issue of differentiation and the role of emerging economies must be addressed in the interests of the multilateral system and for the benefit of development. Emerging countries should show more leadership and assume more responsibility for opening their markets to LDCs through preferential schemes but also on a non-discriminatory basis towards the rest of the WTO membership, of which four-fifths are developing countries.

In our view, this does not imply full reciprocity of commitments with developed countries as an outcome of the DDA, but greater proportionality of their contribution with the benefits they derive from the system.

4.3.3. Tackling emerging challenges

Developing countries benefit from strong and enforceable multilateral rules. Impediments to trade in the modern global economy are increasingly less about tariffs and more about unnecessarily burdensome or mutually-incompatible regulatory measures, which are often much more challenging for the poorest developing countries and those with very limited administrative capacities.

More attention will need to be paid to how trade interacts with other issues of high interest to the poorest developing countries. This has already been the case as regards the inter-linkage between trade and food security, in particular following the – as yet unfulfilled - G20 and UN calls to permanently remove food export restrictions or taxes for the World Food Programme's food purchases for humanitarian purposes. More can also be done e.g. to improve transparency of food-related export restrictions, due consideration of their effects and consultation of other WTO members. Poor developing countries also face other global challenges, such as securing sufficient, reliable energy supplies or adapting their economic systems to changing global climate conditions and threats to their natural resource base, as well as promoting and safeguarding the competitiveness of their companies in the global marketplace. WTO members will need to pay more attention to these major issues in the coming years. Effective cooperation with emerging countries will be essential.

5. CONCLUSION

The rise of emerging countries sends a powerful signal that development is possible and that open markets in an increasingly integrated world economy play a major role in this process. Yet many developing countries are still trailing behind. They need help and that means the EU must maintain and scale up its strong commitment, with a clearer focus on those countries most in need.

Support comes in the form of a partnership in which developing countries too have choices to make and responsibilities to take in the interests of consolidating the long-term benefits of trade and investment. Ownership and good governance are central in this respect. We will provide support through development cooperation and offer trade and investment agreements which support and lock in the institutional changes which are essential for development.

Looking further ahead, all parties must adapt to the shift in economic power seen over the past decade. South-South trade today, for the first time, outweighs North-South trade. Many developed and emerging countries still have to match the EU's openness to trade with poorer developing countries. This makes both a compelling case for multilateral action, including the DDA and beyond, and for a thorough review of the basis for multilateral negotiations. Large emerging countries must take more leadership and responsibility in the multilateral trading system in the interest of the system and for the benefit of global development.

An ambitious goal was set at the Istanbul LDCs Conference in May 2011 to double the LDCs' share of global exports by 2020. The approach set out in this Communication can contribute to this goal. This should be reflected in major international gatherings ahead, particularly UNCTAD XIII in Doha in April 2012 and the Rio+20 Conference for sustainable development in June 2012, which should give new direction in progressing towards a green economy.