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EU highlights trade-led growth as central to modern development agenda

On 27 January, the European Commission will adopt a Communication that outlines how the EU's trade, investment and development policies can work hand-in-hand to support poverty reduction as well as inclusive and sustainable growth in developing countries for the next decade.

The Communication aims to reflect changes in the relative trade power of developing countries, notably with respect to the growing weight of emerging economies and the struggle that Least Developed Countries (LDCs) have in reaping the benefits of world markets. The Communication also takes stock of how the EU has delivered on its commitments and outlines the EU's trade and investment policies for development for the next decade.

The Communication is accompanied by a staff working paper which presents supplementary information and analysis on progress made since 2002, and provides detailed background on the EU's instruments and initiatives to support developing countries.

Trade, growth and development

In setting out the EU's trade and development priorities for the next decade, the Communication calls:

- for more differentiation among developing countries to focus on the poorest;
- to intensify efforts to look beyond tariffs and reduce the remaining barriers to trade;
- to improve the way our trade and development instruments deliver and to enhance their complementarity;
- for our partners to undertake domestic reforms necessary to a sustained trade- and investment-led growth;
- for other developed and emerging economies to match our initiatives to open markets to countries most in need; and
- for emerging economies to take up more global responsibilities for opening their markets to least developed countries.

What has changed?

The relative weight of developing countries in the world economic landscape has grown, but is not equally spread across developing countries.

The rise of the emerging economies – such as Brazil, Russia, India, China and South Africa – as both economic and political players, is having significant and far-reaching impact on the world economy. Together, they account for over 40% of the world population and approximately 17% of the value of world GDP.

- Developing countries are drivers of global trade and now account for over half of world exports: between 2000 and 2009 their exports rose by 80%, compared to 40% for the world as a whole .
- Developing countries that are members of the G20 account for about a third of world exports. Chinese exports more than quadrupled between 2002 and 2010, while Indian exports more than tripled.
- South-South trade has outstripped North-South trade since 2007 despite the fact that there are more trade barriers between developing countries than between developed and developing countries. In 2010, South-South trade was worth €4500 billion compared to €3750 billion worth of North-South trade.

Some countries, such as China, India or Brazil, have managed to reap the benefits of increasingly integrated world markets and are now among the largest and most competitive global economies. Millions of people have also been lifted out of poverty.

At the same time, other developing countries, particularly LDCs mainly in sub-Saharan Africa, while showing positive growth and higher trade achievements, have been further marginalised in an increasingly competitive global landscape. Many continue to face difficulties in developing their productive capacity, diversifying their export base and taking advantage of regional or world markets.

However, 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 their services exports.

- The GDP per capita of developing countries that are members of the G20 increased by 115% over the last decade. The increase was largest for China with 223% and Russia at 310%. By contrast, the GDP per capita of Least-Developed Countries increased by 88% and was led by a handful of African oil-producing countries (Angola, Chad, Equatorial Guinea and Sudan).
- Exports from LDCs doubled over the last decade, comparing favourably to exports from all developing countries, which increased by one and a half. However, this only represented a very modest increase from 0.8% to 1.3% in terms of share in world exports. Furthermore, this is again led by the handful of African oil-producing countries.
- Some LDCs have nevertheless done well in the last decade thanks to trade:
  - Bangladesh and Cambodia have increased their exports by more than 80% and 60% respectively.
  - 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 contrast to the rest of the developing world, LDCs remain net-importers; their economies are therefore very much dependent on imports from abroad and their capacity to export is limited.
- Foreign Direct Investment (FDI) stocks of developing countries that are members of the G20 increased by 75% in the last decade, reaching €3 trillion compared to €3.5 trillion for the whole developing world. While the FDI of Least-Developed Countries increased at an even higher rate of 82%, it remains at a modest €94 billion or 2.7% of the total.

Why do we need to differentiate among developing countries?

The rise of emerging economies sends a powerful signal that trade-driven development is possible and that open and increasingly integrated world markets can play a major role in this process (although it is not the only element in the development equation.)

Yet those trailing behind need help and that means the EU must scale up its strong commitment to trade and development, with a clear focus on countries most in need. At the same time other countries no longer need unilateral preferential access to the EU market or aid for trade to remain competitive in world markets.

The notion of "developing countries" as a single group is losing relevance and EU trade, investment and development policy needs to be better tailored to reflect this.

What does the Communication recommend?

In support of its overarching aims, the Communication calls for:

- going beyond unilateral trade preferences for goods by addressing issues through bilateral and regional trade negotiations with developing countries, to include such issues as: trade facilitation, social and environmental regulations, foreign direct investment, intellectual property rights, services, competition policy and public procurement;
- the fast adoption by the EU of a revamped Generalised System of Preferences (GSP) scheme to ensure that only LDCs, low-and lower-middle income countries benefit from the system in sectors where they need help, while offering different forms of trade and investment partnerships to countries who have outgrown the scheme;
- the rapid conclusion of Economic Partnership Agreements with African countries based on a shared commitment to a trade and development partnership as well as a pragmatic approach to remove remaining obstacles to negotiating and implementing these agreements;
- pursuit of a partnership for democracy and shared prosperity with the Southern Mediterranean;
- continuation of the EU's ambitious negotiation agenda with several countries in the Eastern Neighbourhood, Asia and Latin America for deep and comprehensive Free Trade Agreements;
- using EU instruments to promote foreign direct investment, including relevant provisions in EU Free Trade Agreements to enhance legal certainty and combining EU grants with loans or risk capital to support the viability of strategic investments; and

- emerging economies to 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. At the same time, the EU offers emerging economies a more mature partnership that includes regulatory cooperation and engagement on global issues which are essential for development such as food security, sustainable use of natural resources, green growth and climate change.

Initiatives for trade, growth and development

The Communication suggests a series of initiatives in support of its recommendations, including:

- a package to promote trade for small operators in developing countries, including:
  - extending practical information, facilitating the use of intellectual property tools,
  - promoting dialogue,
  - facilitating access to finance,
  - simplifying procedures for obtaining proof of origin,
  - supporting participation in trade schemes that secure added value for producers;
- improving complementarity between trade and development policies, with a more pro-active and coherent approach when it comes to designing aid measures to help developing countries benefit from trade openings and address related adjustment needs;
- continuing to promote Corporate Social Responsibility, encouraging both companies and our trading partners to sign up to internationally recognised guidelines and principles in this area;
- strengthening support for developing country producers taking part in sustainability-bound schemes, such as fair, ethical, or organic schemes;
- emergency measures and efforts to improve preparedness to support developing countries affected by natural disasters. For example, temporary derogations to rules of origin requirements, factoring trade vulnerabilities into the needs' assessments undertaken in the context of EU humanitarian aid policy, development of innovative index based on weather risk insurance; and
- transparency and due diligence measures to support several developing countries that are plagued by conflicts, which are often linked to the control of natural resources.

What about support for domestic reform?

The EU supports domestic reforms needed for trade to fully contribute to development.

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. The EU provides support for this through development cooperation to allow our partners to take advantage of opportunities created by market openness.

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[1]. Besides geographical programmes, new thematic programmes could be used to accompany trade openings[2].

Will there be new legislation?

The Communication does not put forward new legislative proposals but does not prejudge either that follow-up work may conclude that new legislation is needed. It does not commit new funds, but suggests how existing instruments can be used better and in parallel to similar efforts in the EU's development policy[3] to focus on those countries most in need.

What has the EU done to date?

In its 2002 Communication on trade and development, the Commission pledged to grant developing countries greater access to the EU market. In the 2007 Aid for Trade Strategy, the EU and its Member States committed to provide developing countries with more Aid for Trade. The EU has delivered on both accounts. Today, the EU is the most open market to developing countries in the world.

- Almost three quarters of EU imports from developing countries are duty free.
- Fuels excluded, the EU imports more from LDCs than the US, Canada, Japan and China put together. This holds true for both agricultural and industrial (including textiles and clothing) products.

Greater access to EU markets

The EU has a flagship initiative to open its markets to developing countries, known as the Generalised System of Preferences (GSP), which offers reduced tariffs for goods from developing countries. In addition to the standard GSP regime, the GSP+ scheme grants additional preferences to developing countries that are committed to implementing core international conventions on human rights, labour rights and sustainable development.

Furthermore, Everything but Arms (EBA) provides least-developed countries with duty-free quota-free market access to the EU for all their products except arms and has proved to be an effective engine for boosting LDC exports to the EU market.

- The Everything But Arms (EBA) initiative in 2001 was radical in opening the EU market to LDCs without any tariff or quota. Ten years later, EBA has proved to be an effective engine for boosting the exports of 48 LDCs to the EU market. EU imports from LDCs grew more than 25% faster than imports from non beneficiaries of preferential regimes.
- The GSP+ scheme currently has 16 beneficiaries . Set up in 2006 the scheme has boosted beneficiaries' exports to the EU. Preferential imports from these countries grew by 28.5% between 2006 and 2010. Its additional preferences provide a powerful incentive to countries committed to implementing core international conventions.

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

[2] 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, 712.2011 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.

[3] Agenda for Change Communication

Since 2002, the EU and African, Caribbean and Pacific (ACP) countries have been negotiating Economic Partnership Agreements (EPAs). These are trade and development partnerships that go far beyond commercial relations and strive to break the vicious circle of poverty. The aim of these far-reaching agreements is to improve ACP countries' trade and investment prospects, promote regional integration, improve the business environment, as well as implement the Cotonou Agreement's trade pillar. EPAs are pro-development agreements that are WTO-compatible, thus ensuring predictability and legal certainty. ACP countries that initialled EPAs with the EU can access the EU market without duties or quotas.

In addition, a series of Free Trade Agreement (FTA) negotiations were launched with more advanced developing partners, such as India, Singapore and Malaysia. FTA negotiations were also successfully concluded with the Central American region as well as with Colombia, Peru and Ukraine. These agreements go beyond tariffs: they look at non-tariff barriers and key regulatory issues related to services, investment, intellectual property rights, competition or public procurement. These issues are also addressed bilaterally outside of FTA negotiations, notably with China.

A number of additional negotiations with developing and emerging nations in Asia, Latin America and in the EU's neighbourhood have also been launched.

Easier access to markets

The EU has made it easier to get practical access to the EU market. This notably concerns new and simpler preferential rules of origin applicable since 1 January 2011 in the GSP system, and an improved flow of information to developing countries on how to export to the EU through the Export Helpdesk.

- In 2004, the Commission launched the Export Helpdesk as an accompanying measure to the preferential trade arrangements granted by the EU to developing countries.
- It is a free online service providing information for economic operators in developing countries on the conditions of access to the EU market. In 2010 the Export Helpdesk counted over 1,750,000 hits worldwide; indicating its usefulness for economic operators around the world.

Provided Aid for Trade

- The EU and its Member States have been driving global Aid for Trade efforts, accounting for more than a third of total flows. In 2007, the EU and its Member States adopted a joint strategy, which led to a considerable increase of joint efforts reaching €10.5 billion of combined annual Aid for Trade in 2009 thus making the EU and its Member States the largest provider of Aid for Trade in the world.
- The EU and its Member States are the world's leading providers of Aid for Trade with €10.5 billion in 2009. This includes €3 billion for Trade-Related Assistance, thus exceeding by €1 million the EU's annual target of €2 billion.
- Sub-Saharan Africa is the main beneficiary Aid for Trade receiving some €2.9 billion worth of Aid for Trade in 2009 or 29% of the total, up from €2.2 billion in 2008

Aid for Trade in action - supporting coffee and tea production in Rwanda

An EU project, set up to help support the Rwandan tea and coffee industry, creating more jobs and increasing the livelihoods of farmers as a result, has benefitted 60,000 farmers. Some 85% of the Rwandan population works in the agricultural industry.

The programme helped to provide new facilities and equipment (for example new washing stations and new and rehabilitated storage systems, as well as pesticides, to protect the crops). To help tea production, drainage canals were built, road works carried out to improve access to tea estates, and training provided. It also helped farmers to diversify into other products: for example; soya, macadamia nuts, mushrooms and potatoes.

The project has had a significant impact and has helped to relaunch coffee production in Rwanda. It also contributed to a 38.2% share in total export value (real terms) for coffee and tea together in 2009.

The programme has also had a very big social impact - helping to improve producers' livelihoods and increase their purchase power. Women, who make up 40% of the programme, have particularly benefitted from it. The local environment has also been improved, thanks to the improved drainage system, increased use of water recycling, and better use of chemicals.

What happens next?

The Communication will now be discussed in the Council and the European Parliament. Trade Council Conclusions are expected by 16 March 2012.

For more information

The Communication, staff working paper and other background documents:

http://ec.europa.eu/trade/wider-agenda/development/

EU Trade Policy:

http://ec.europa.eu/trade/

EU Development Policy:

http://ec.europa.eu/europeaid/index_en.htm

Aid for Trade:

Memo/11/59

Publication on Aid for Trade: Aid for Trade

EU Accountability Report 2011 on Financing for Development (Annex on EU Aid for Trade Monitoring Report 2011)

The review of the Generalised System of Preferences (EU import scheme for developing countries)

Economic Partnership Agreements:

http://ec.europa.eu/trade/wider-agenda/development/economic-partnerships/

2002 "Trade and Development: Assisting developing countries to benefit from trade" Communication:

http://trade.ec.europa.eu/doclib/docs/2004/april/tradoc_111245.pdf