Advancing development through trade

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PURPOSE: to establish a new and comprehensive framework to **adjust development policy by trading with those countries having the greatest need** of assistance among the developing countries.

BACKGROUND: 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, such as China, India or Brazil, have gone through radical changes and have managed to reap the benefits of open and increasingly integrated world markets. At the other end of the scale may be found the Lesser Developed Countries (LDCs), mainly in Africa, that continue to face many difficulties and are the most off track in the achievement of the Millennium Development Goals (MDGs).

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 EU has a particular responsibility as the world's largest trading power, the biggest trading partner of many LDCs.

Further to the 2010 Communication on Trade, Growth and World Affairs, this Communication updates the 2002 Communication on Trade and Development 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 policies for **development** should take over the next decade.

CONTENT: although it confirms the main principles of the 2002 communication (to this effect, please refer to the European Parliament's resolution on the 2002 Communication, INI/2002/2282), **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 (in this context, please also refer to INI/2012/2225).

Tasks for the future to strengthen trade and development: 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. With this in mind, the Communication envisages a series of measures some of which are already under way. Some examples of these include:

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. In addition to this reform that is considered crucial to better target preferences, the Communication envisages a **package of measures to promote trade for small operators in developing countries**:

- improved publicity on the availability of practical information on trade policies and market information, in particular to encourage South-South trade;

- the use of intellectual property protection tools by small producers and farmers to help them maximise the economic value of their goods;
- the promotion of networks of diaspora small traders in the EU (e.g. on trade procedures, standards, access to finance);
- the facilitation of access to finance for small exporters/traders from developing countries;
- the **extension of the simplified procedure for obtaining proof of origin** (trade preferences are relatively less used for small transactions; 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, its extension to other preferential arrangements will be considered);
- support for the participation of small businesses in trade schemes that secure added value for producers, including those responding to sustainability.

2) Better targeted Aid for Trade (AfT): the objective of this is to **encourage developing countries to include trade in their development strategies** by:

- improving the complementarity between trade and development policies: when trade policy measures create increased opportunities for our developing partners (e.g. EPAs, the new GSP, etc.), 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;
- greater support for LDCs to develop trade;
- greater focus on small operators (small farmers and rural smallholders);
- stepping up economic partnerships, regulatory dialogues and business cooperation to help foster new forms of cooperation in countries graduating from bilateral development assistance;
- the revision of our approach in supporting regional integration to focus on trade facilitation and connectivity;
- equipping people for change by increasing their awareness of policies in relation to skills and education, labour rights and social protection;
- improving aid effectiveness and improving coordination among donors.

3) Complementary instruments: the Communication proposes a series of instruments to underpin this policy:

- **greater use of comprehensive and modulated bilateral/regional agreements:** the FTAs will include commitments on services, investment and trade-related areas. If comprehensive and regional agreements prove to be beyond reach, variable geometry or multiple-speed agreements can be introduced.
- **a partnership for democracy and shared prosperity** in response to the Arab Spring going far beyond market access to further deepen integration with countries in the Southern Mediterranean and promote human rights, good governance and democratic reforms;
- **a values-based trade agenda to promote sustainable development:** besides the GSP+ scheme (the flagship EU trade policy instrument supporting sustainable development and good governance), the Commission envisages engaging partner countries in a cooperative process involving civil society as well strengthening compliance with domestic and international labour and environmental standards; private sustainability-bound schemes (e.g. fair, ethical or organic) can be an effective way to foster sustainable and inclusive growth;
- measures to **strengthen corporate social responsibility**;
- measures to **help improve resilience to global commodity price shocks**;
- measures to help **preparedness for natural catastrophes** in particularly vulnerable countries.

4) Principles: to properly implement the above-mentioned proposals, the Communication recommends: i) the **promotion of good governance**, which 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; ii) **promotion of transparency** and the requirement to provide reports in the context of trade agreements under negotiation; iii) **encouragement of ownership**.

The multilateral programme up to 2020: the Communication stresses that **an absolute must be to preserve and strengthen the multilateral trading system**. In this connection, it regrets the current impasse in the Doha Development Agenda (DDA) which offers considerable potential for developing countries. This impasse reveals a fundamental weakness in the WTO setting which has not evolved as quickly as economic realities. 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.

The priority for the EU is to pursue negotiations on the DDA to include, for example, mandated topics such as trade facilitation, non-tariff barriers and dispute settlement. **An agreement on trade facilitation offers substantial development benefits** by ensuring coherent reforms in all WTO members.

The issue of **differentiation** and the role of emerging economies must be addressed. 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. 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.

As far as **LDCs** are concerned, the objective is to push for greater coherence in preferential rules of origin, including greater transparency, simplicity and improved market access. In addition to the DDA negotiations and to allow as many countries as possible to benefit from the system, **the accession of LDCs to the WTO should be supported and facilitated**.

In **conclusion,** the Communication calls on the countries concerned to make choices and assume responsibilities in the interests of consolidating the long-term benefits of trade and investment.

Given that South-South trade, for the first time, outweighs North-South trade, the Communication calls on large emerging countries **to take more leadership and responsibility in the multilateral trading system** in the interest of the system and for the benefit of global development.