

Trade and investment-driven growth for developing countries

2012/2225(INI) - 17/04/2012 - Non-legislative basic document

PURPOSE: to establish a new and comprehensive framework to **adjust trade and investment policy in favour of those developing countries in greatest need of assistance.**

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/2012/2224](#)).

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** (please refer to the summary of [INI/2012/2224](#) for details of the measures in question).

2) Better targeted Aid for Trade (AfT): the objective of this is to **encourage developing countries to include trade in their development strategies** (please refer to the summary of [INI/2012/2224](#) for details of the measures in question).

3) Complementary instruments boosting foreign direct investment (FDI): the Communication notes that 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:

Provisions in EU Free Trade Agreements (FTAs) grant investors greater legal certainty regarding market access sectors (e.g. sectors such as telecommunications, transport, banking, energy, environmental services, construction...);

Investment protection granted by Bilateral Investment Treaties (BITs) either as part of on-going FTA negotiations or as stand-alone agreements;

EU blending mechanisms can be used to leverage domestic and foreign investment in developing countries: grants would be combined with e.g. loans or risk capital to support the financial viability of strategic investments under the new financial instruments covered by the multiannual financial framework for the period 2014-2020. 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.

4) Complementary instruments: the Communication proposes a series of instruments in addition to the classic development measures which are: i) greater use of comprehensive and modulated bilateral/regional agreements; ii) a values-based trade agenda to promote sustainable development; iii) measures to strengthen corporate social responsibility; iv) measures to help improve resilience to global commodity price shocks; and v) measures to help preparedness for natural catastrophes in particularly vulnerable countries.

The following will receive particular attention:

- measures to enhance transparency of investments and to combat fiscal fraud: several initiatives are in place in this regard (such as the [Directive](#) requiring the publication of payments made to governments both by publicly quoted companies on European stock markets and by [other large EU companies active in the extractive and forestry sectors](#));
- improvement of transparency in the supply chain, including aspects of due diligence;
- greater support for and use of the recently updated OECD Guidelines for multinational enterprises, as well as the OECD's recommendations on due diligence and responsible supply chain management;
- specific assistance in regard to sustainable mining, geological knowledge and good governance in natural resources management;
- mechanisms controlling price volatility of primary resources (such as the Vulnerability FLEX (V-FLEX) mechanism, a short-term instrument to help the most vulnerable ACP countries to cope with the impact of the global food and financial crisis).

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.