

**Opinion of the European Economic and Social Committee on the ‘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’**

COM(2012) 22 final

(2012/C 351/17)

Rapporteur: **Ms PICHENOT**

On 27 January 2012, the European Commission decided to consult the European Economic and Social Committee under Article 304 of the Treaty on the Functioning of the European Union on

*Trade, growth and development — tailoring trade and investment policy for those countries most in need*

COM(2012) 22 final.

The Section for External Relations, which was responsible for preparing the Committee’s work on the subject, adopted its opinion on 5 September 2012.

At its 483rd plenary session, held on 18 and 19 September 2012 (meeting of 18 September), the European Economic and Social Committee adopted the following opinion by 127 votes to 1 with 6 abstentions.

## 1. Conclusions and recommendations

### 1.1 Background

In 2012, following a decade of proactive policies connecting trade and development, the European Commission has produced a communication, *Tailoring trade and investment policy for those countries most in need*<sup>(1)</sup>, which makes a rather cautious assessment of the results of that policy in a world in complete upheaval. The developing countries now account for more than 50 % of world trade. The greatest potential for growth in the coming years is in South-South trade. Barriers to trade have themselves changed, taking the form of non-tariff barriers to a greater extent than in the past, which poses a serious problem for developing-country exports.

In this context, the EESC highlights the importance of better integration of developing countries in regional and international trade. It supports the EU’s commitment to multilateralism and the early conclusion of a WTO agreement benefiting the least developed countries (LDCs). However, the EESC emphasises that trade remains a means, not an end. In a changing world, with unprecedented environmental pressure and growing inequalities, the challenge today is to make trade policy part of a new, more inclusive and more sustainable form of development.

### 1.2 Points which the Committee supports

The new communication on trade, investment and development should be welcomed as the outcome of effective collaboration between the European Commission’s Directorates-General. The EESC acknowledges the quality of civil society’s contribution to the public consultation and the relevance of the analysis, as well

as the efforts to achieve consistency and to implement the trade-related aspects of the Agenda for Change<sup>(2)</sup>. It particularly welcomes the attention given to the impact, monitoring and evaluation of trade policies, which provides better bases for a pragmatic approach to the link between trade and development. The EESC, together with its partners, is involved in this monitoring and would like to see an assessment of the barriers to trade and investment which may affect certain developing countries.

The EESC shares the interest in access to credit and aid for trade for private operators, particular micro-, small and medium-sized enterprises, as well as support for local and regional trade between small farmers. The EESC reminds the leaders of developing countries of the importance of creating a secure investment climate in their countries and of the key role of supply in development.

The EESC supports the Policy Forum for Development, the initiative from the Commission’s Directorate-General for Development and Cooperation (DEVCO) aimed at putting in place a structured dialogue on development, which will be in the interim phase until 2013.

### 1.3 Points on which the Committee has criticisms

Faced with a world in complete upheaval, a climate emergency and a growing gap between emerging and non-emerging countries, the communication merely fine-tunes policies, including

<sup>(1)</sup> Trade, growth and development. Tailoring trade and investment policy for those countries most in need, COM(2012) 22 final.

<sup>(2)</sup> Increasing the impact of EU Development Policy: an Agenda for Change, COM(2011) 637 final.

giving a retrospective justification of the reform of the Generalised System of Preferences (GSP). Constructing a new vision for development should become a priority both for the EU and for its partners, whose capacity needs to be strengthened with a view to inclusive and sustainable development. The Committee calls for a broad debate with civil society in order to move forward in this direction.

The communication also remains reticent on certain important subjects. In particular, it does not draw all the lessons of its analysis of the fragmentation of trade. The communication confirms that countries can be divided into three groups from the point of view of trade: the LDCs, whose share of world trade remains marginal; the rapidly-growing emerging countries; and between those two groups, the "middle countries". Since the communication focuses on the countries "most in need of aid", it does not deal in detail with the trade treatment granted to these "middle countries", even though they represent the majority of developing countries. A more restricted GSP cannot take the place of a development strategy.

Finally, the EESC warns of the limitations of differentiating between countries on the basis of income (GDP) alone. Better differentiation between developing countries by going beyond the national income criterion (as has been done for the LDCs) is a promising area of work, which the EU should continue to support in international fora. The EU already has the opportunity to raise this issue in the discussions on the post-2015 Millennium Development Goals and the Sustainable Development Goals (SDGs).

#### 1.4 *The Committee's recommendations*

The EESC recalls the importance of producing *sui generis* development strategies that combine domestic and trade policies with a view to sustainable and inclusive growth. Domestic measures to strengthen the rule of law, correct market failures and protect the economic and human environment are essential for a development strategy. Without these elements, trade can make only a limited, marginal contribution to development, particularly in agriculture.

The Committee reiterates its recommendation to incorporate the sustainable development impact assessments in a broader cycle of ex-ante to ex-post impact assessments of trade policies which also covers the Europe 2020 goals.

The EESC encourages the EU to integrate the June 2012 ILO (International Labour Organisation) conclusions on the social protection floor more closely into its trade strategy regarding developing countries.

The EESC recommends integrating sustainable development provisions within the overall evaluation of free-trade agreements through procedures for the regular monitoring and *ex post* analysis of these agreements by the EESC. The Committee also wishes to see the inclusion in the sustainable development provisions of all trade agreements of a specific commitment to

monitoring and evaluating the impact of the agreement as a whole on sustainable development.

The EESC encourages the EU to promote duty- and quota-free access for products from the LDCs more strongly in multilateral fora. Strengthening LDCs' ability to negotiate so they can sign "South-South" trade agreements could also become an EU priority.

The EESC calls on the EU to launch a debate on the future of the Economic Partnership Agreements (EPAs) in the face of the ongoing gridlock. The EESC wishes to be closely involved in this process and believes that it is important for the specific characteristics of "middle countries" to be taken into greater account during this debate.

## 2. **Lessons to be drawn from the fragmentation of international trade**

2.1 Since 2006, for the first time since the industrial revolution, developing countries are now accounting for over 50 % of international trade. For ten years now, we have been seeing the start of convergence between the incomes of developing and developed countries, still referred to as "catching up". These two phenomena are linked to the lowering of tariff barriers across the world and to the role played by emerging countries, particularly China, in world trade. The geography of industrial trade is shifting towards Asia. That of agricultural trade is shifting towards Brazil. At the same time, the composition of trade is being transformed, with trade in goods being joined by trade in tasks: most of the products traded in the world are intermediate rather than finished products. Three groups of countries can be identified: LDCs, whose share of world trade remains marginal; the rapidly-growing emerging countries; and between those two groups, the "middle countries", which represent the majority of developing countries.

2.2 However, the recent start of this economic convergence conceals significant differences in the speed with which different countries are catching up, with non-emerging developing countries lagging behind. This is the first respect in which trade is unequal as between the poorest countries and the others. Although all countries gain from trade, some specialisations provide greater added value than others and, in general, it is still the specialisations of the poorest countries which are (relatively) the least profitable. Those countries are "trapped" in the exploitation of a handful of extractive and tropical agricultural resources in which they have an absolute advantage in trade, but the return from which tends to decrease over time as compared with that of industrial and service activities.

2.3 The steady increase in the prices of mining and agricultural raw materials, particularly as a result of increasing demand from emerging countries, may seem to be a godsend for the developing countries that export those products. On the contrary, it threatens to entrap them in specialisation in

primary products and expose them to the "curse of raw materials" (poor resilience to shocks, instability of export revenues and public budgets and a propensity to extraction of rents and financing of armed conflicts) and to the phenomena of overvalued exchange rates and land-grabbing. Diversification of exports is necessary for the sustainable development of an economy. However, the market threatens to reinforce the historical dependence of developing economies on these products.

2.4 Economic catch-up is also accompanied by growth in inequality within countries. It is up to the state to ensure a fair distribution of the gains from trade liberalisation across the whole economy and territory. Gains from trade and growth do not automatically spread to all economic participants, particularly not to the most vulnerable. That is why it is important to produce *sui generis* development strategies that combine domestic and trade policies with a view to sharing growth. With their limited tax base and weaker budgetary capacity, developing countries here face a second disadvantage.

2.5 While the geography and composition of trade are being transformed, industrial and trade policies are also evolving. In the last ten years, the integration of developing countries in world trade has been transformed due to the erosion of trade preferences and the proliferation of regional and bilateral agreements. In its working document, the Commission notes a persistent marginalisation of the LDCs in world trade. The interventionist approach of the 2002 communication, introduced with a view to concluding the Doha development round, was not enough to lead to a substantial increase in the integration of the LDCs in world trade: almost all trade goes on without them.

2.6 Competition no longer occurs at borders, but within countries. In general terms, with the exception of certain tariff lines, barriers to trade increasingly take the form of non-tariff barriers such as standards, codes, subsidies and regulations. In this respect, the emergence in international trade of the BRICS is less a demonstration of the benefits of trade liberalisation alone than of the benefits of clear, planned, appropriate and autonomous development strategies combining interventionist public policies with market incentives. On the other hand, the absence of a development strategy and of the ability to influence globalisation constitutes a third inequality to which the least developed countries are exposed.

2.7 Inequality of *income* from trade specialisation, inequality of ability to *finance* green, inclusive growth and inequality of political capacity to *design, plan and manage* development strategies constitute the three inequalities which affect the least advanced countries in "modern" trade. They are interconnected, and are likely to grow in the absence of appropriate collective action combining trade, investment and development cooperation policies, as advocated by Millennium Development Goal No 8.

### 3. The need for a European strategic vision, in line with the Europe 2020 strategy, in a changing world

3.1 The Commission Communication on trade, growth and development reaffirms the broad principles of the 2002 communication, but emphasises the need to differentiate between developing countries so as to focus on those which need aid the most. On that basis, the Commission sets out six priorities for the present decade: more targeted trade preferences, more effective aid for trade, promotion and protection of foreign direct investment, modulated negotiation of full free-trade agreements according to the income of the countries concerned, promotion of good governance (including sustainable development), and finally strengthening the resilience of the most vulnerable countries to external and internal shocks.

3.2 The EESC supports these priorities, which reflect continuity, but emphasises that they only partly address today's three main development issues. The new communication on trade, growth and development has been put together on the basis of the very useful material collected during the excellent public consultation that took place on the subject in 2011 and should be welcomed as the outcome of effective collaboration between Directorates-General. It complements the communication on trade, growth and world affairs, which remains the backbone of the link between trade and the Europe 2020 strategy. The communication on the link between trade and development lacks a renewed vision of the future going beyond the progress made on specific points, such as greater differentiation between developing countries and increasing focus on private operators.

3.3 As the Commission emphasises in the study which preceded the communication, integration into the world market is neither an end in itself nor a sufficient condition for development. Trade liberalisation and access to markets are not a development strategy, only elements of one. Domestic measures to strengthen the rule of law, correct market failures and protect the economic and human environment are essential for a development strategy and are preconditions to achieving gains from trade, particularly in agriculture.

3.4 Without a shared vision of development, the political initiatives put in place by the European Union to give privileged access to foreign markets, such as the GSP and the Economic Partnership Agreements (EPAs), have not led to the expected burst of growth. The greatest worry is not the limited economic benefits of these initiatives for developing countries, but the weak political commitment shown by the developing countries concerned by them. It would be worthwhile for the EU to state more clearly the precise scale of the expected gains, both for itself and for its partner countries, from reducing tariff

and non-tariff barriers. Finally, it is up to the EU to demonstrate that its external policy in relation to the ACP countries, which prioritises the regional dimension of trade (EPAs) <sup>(3)</sup>, is coherent, given that development and growth policies in those regions remain national.

3.5 The situation is the same at multilateral level. By contrast with the situation in relation to negotiations concerning climate change, where developing countries, particularly non-emerging ones, have taken hold of the issues under negotiation, the non-emerging developing countries continue to have little or no involvement in the Doha round. In addition, the priorities and needs of the countries that receive aid for trade are still poorly defined, due to the fact that those countries lack the necessary capacity and policy space to produce sustainable development strategies.

3.6 In the European Union's defence, international development cooperation still operates in the spirit of agreements between sovereign nation states. In practice, however, such diplomacy must be carried on with fragile states with limited capacities. The result at present is that trade is neglected in development strategies and aid programming. Constructing a new vision for development should become a priority both for the EU and for its partners, whose capacity needs to be strengthened to that end. Implementing national policies is the key to making trade contribute to development. In the near term, pragmatism, trial and error and experimentation should guide the EU's activities in the trade for development field and should contribute to building such a vision in line with the Europe 2020 strategy.

#### 4. A pragmatic approach to trade and investment to support a development vision

##### 4.1 *Developing capacity and tools for monitoring and evaluation of the impact of trade*

4.1.1 The empirical nature of the link between trade and development makes it necessary to develop a pragmatic approach to trade policy, in a spirit of learning and experimentation. Whether a trade agreement is good for development or not is not something that can be determined or asserted in advance. The EESC repeats its recommendation, expressed in an earlier opinion, to make sustainable development impact assessments part of a broader cycle of evaluation of the consequences of trade policies running from *ex ante* to *ex post*, taking into account the European goals of the Europe 2020 strategy.

<sup>(3)</sup> See the final declaration of the 12th regional seminar of the ACP-EU economic and social interest groups, Santo Domingo, 5 and 6 July 2012: [http://www.eesc.europa.eu/resources/docs/12regional-seminar-domrep2012-final-declaration\\_en-2.pdf](http://www.eesc.europa.eu/resources/docs/12regional-seminar-domrep2012-final-declaration_en-2.pdf).

4.1.2 Monitoring and evaluation are particularly necessary in relation to flanking policies to trade agreements, to improve their performance through successive reviews. That is also the case for examination of the "sustainable development" provisions which should, the EESC reiterates, be included in every EU trade agreement. The EESC recommends integrating sustainable development provisions within an overall evaluation of free-trade agreements through procedures for the regular monitoring and *ex post* analysis of these agreements by the EESC. The Committee also wishes to see the inclusion in the sustainable development provisions currently being negotiated of a specific commitment to monitoring and evaluating the impact of the agreement as a whole on sustainable development.

4.1.3 Regularly assessing the effectiveness and impact of trade facilitation and of the various forms of access to markets which the EU offers to developing countries (such as special and differential treatment, EPAs and the GSP) should also allow consolidation of what are today the essential elements of EU policies. Independent, scientific impact assessment is at the heart of the overhaul of official development assistance (ODA) policy. Aid for trade – the amount of which exceeded EUR 10 billion in 2010 – would benefit in terms of effectiveness and relevance from the production of indicators making it possible to assess its impact.

4.1.4 Beyond the GSP, further flexibilities from which developing countries could benefit are still unused. In line with an earlier opinion, the EESC supports any EU initiative that aims to encourage developing countries to make use of the provisions relating to food security. It is particularly necessary, within multilateral, regional and bilateral frameworks, to make it easier for them to use the available trade instruments, such as safeguard measures that allow them to act in the event of import surges that could undermine local food production <sup>(4)</sup> and to measure their effects.

4.1.5 The EESC repeats its recommendation, set out in an earlier opinion <sup>(5)</sup>, to give resource and regulatory support to the development of improved transparency, monitoring and credibility of fair trade. The EESC also supports systematic assessment of the impact of fair trade, not only on the intended beneficiaries but also on non-beneficiaries in regions that produce the same products.

<sup>(4)</sup> EESC opinion on the Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions - Trade, Growth and World Affairs: Trade Policy as a core component of the EU's 2020 strategy. OJ C 043, 15.02.2012.

<sup>(5)</sup> EESC opinion on the Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions – Contributing to Sustainable Development: The role of Fair Trade and non-governmental trade-related sustainability assurance schemes COM(2009) 215 final, OJ C 339, 14.12.2010.

4.1.6 In line with the 2010–2013 work programme on policy coherence for development, it is essential to assess the coherence of the trade instruments that involve the EU, particularly those concerning access to medicines, intellectual property rights and decent work. The EESC encourages the EU to integrate the June 2012 ILO conclusions on the social protection floor more closely into its trade strategy for developing countries.

4.1.7 The EESC supports extending the monitoring and assessment of barriers to trade and investment from which certain developing countries may also suffer.

4.1.8 If learning and evaluation are to be effective and lead to trade policy reforms that support development, civil society must be heavily involved, more than at present, particularly within the monitoring mechanisms for trade agreements and economic partnership agreements.

## 4.2 Support for private operators in developing countries

4.2.1 The EESC recognises the fact that the communication focuses on the key role of private operators, particularly the small farmers and small entrepreneurs who are the backbone of the economy in several developing countries. The Committee emphasises the importance of promoting responsible business management, encouraging partnerships between the private and public sectors and recognising different forms of entrepreneurship such as cooperatives, mutual societies and other forms of social economy enterprises<sup>(6)</sup>. It agrees that it is important to create a secure investment climate, stable business law, fair taxation and an effective and predictable legal system that guarantees the legal security of national and foreign investments. The EESC emphasises the importance of e-commerce infrastructure and services as part of a strategy of strengthening and diversifying export supply.

4.2.2 The EESC supports measures aimed at facilitating access for small farmers and small entrepreneurs to aid for trade, allowing them to take advantage of the benefits of trade, and at promoting policies that lead to a shift from the informal sector to registered activities. In this context, the EESC notes the timeliness of the joint ILO-WTO study<sup>(7)</sup>, according to which "the high incidence of informal employment in the developing world suppresses countries' ability to benefit from trade opening by creating poverty traps for workers in job transition". Actions in support of gender equality and support for the employment of women will contribute to this transfer from the informal sector to registered activities. The priority given to the fight against corruption and to infrastructure

development should be maintained. The cooperation in combating corruption between the social partners and other civil society organisations within the Euromed partnership could provide material for learning.

4.2.3 The EU's comparative advantage as compared to that of other national and multilateral institutions in supporting private operators, regardless of business form, should be strengthened so as to improve the efficiency of its aid for trade instruments, particularly as South-South trade increases. The EU must ensure that its delegations in third countries have human resources commensurate with the issues at stake, and must involve the delegations more in capitalising on experience on the ground.

4.2.4 Professional organisations, which are highly active in the private sector, can make a significant contribution to identifying the cooperation needs of partner countries. Closer consultation of such organisations through the EESC should help bring the supply of – and demand for – cooperation into line. The negotiation of EPAs and the drawing up of Poverty Reduction Strategy Papers under the aegis of the World Bank have made a start by helping to strengthen and give structure to professional organisations in developing countries.

4.2.5 As the Commission highlights, the Committee welcomes the notion that corporate social responsibility helps promote the conditions for fair worldwide competition in trade and investment. It is clear that large businesses of European origin have played a pioneering role in bringing in social, environmental and governance rules in the context of trade by way of International Framework Agreements covering subcontractors. Signing up to the OECD guidelines, which have the advantage of including a complaints mechanism in case of disputes, is therefore a good idea. Those principles also refer to the need to publish relevant, reliable and verifiable social information on an annual basis, something which should apply across the board.

## 4.3 Preparing reforms to global governance

4.3.1 The provision of cooperation in the field of trade and development should be broadened to involve the emerging countries alongside the OECD countries, which have historically provided official development aid and privileged access to markets. It is the emerging countries that currently have the most room for manoeuvre. In particular, the EESC encourages the EU to promote effective duty- and quota-free access for products from the least developed countries (LDCs) more strongly, not only in multilateral fora (particularly the G20) but also in its bilateral relations with emerging countries. Strengthening LDCs' ability to negotiate "South-South" trade agreements could also become an EU priority.

<sup>(6)</sup> EESC opinion on Social Economy in Latin America, OJ C 143, 22.05.2012.

<sup>(7)</sup> Globalization and Informal Jobs in Developing Countries, joint WTO/ILO study, 2009.

4.3.2 The EESC insists that every effort should be made to conclude the Doha development round, at the very least by way of an early agreement in favour of the LDCs alone and involving a broad commitment from donors, both members and non-members of the Development Assistance Committee (DAC). The EESC reiterates that it wishes to see 2015 – the target date for the Millennium Development Goals (MDGs) – being dedicated to international cooperation. The results of the MDGs and the prospects opened up by the Rio+20 sustainable development summit will be the subject of an opinion by the Committee in parallel with the consultation.

4.3.3 At the same time, the EU's trade and development strategy is not limited to more reciprocity with emerging countries on the one hand and duty-free access for products from the least developed countries on the other. The

non-emerging developing countries or "middle countries", which fall between these two groups, constitute partners with which the EU could develop mutual interests. They could be important allies in the promotion of better governance, a key objective of the EU. As a result of the priority given to the countries most in need of aid, the communication lacks an explicit strategy other than a more restricted GSP.

4.3.4 Better differentiation between developing countries, by going beyond the national income criterion alone (as has been done for the LDCs), is a promising current area of work in terms of improving the effectiveness of special and differentiated treatment and aid for trade. The EU could raise this issue in the discussion on the post-2015 MDGs and the Sustainable Development Goals (SDGs).

Brussels, 18 September 2012.

*The President*  
*of the European Economic and Social Committee*  
Staffan NILSSON

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