<u>CUTS Comments on New EU Communiqué on Trade, Growth and Development</u>

On 27th January 2012, the European Commission announced its "Communiqué for trade, growth and development" for "tailoring trade and investment policy for those countries most in need". Overall the Communique is expected to establish a good platform for effective use of trade policy to boost economic growth. More than other major players the countries of the European Union are channelling its fund towards aid for trade initiatives and is already actively pursuing a set of new strategies for trade, growth and development. The following are some comments on this New Communiqué.

1. Not Enough

1.1 It appears that the EU is not making enough effort to promote economic growth in developing countries more effectively. Indeed, with the exception of the Generalised System of Preferences scheme, most of the tools in the EU trade policy are still focused on promoting the liberalisation of strategic sectors in developing countries, rather than creating meaningful market access opportunities for developing countries.

1.2 It is undeniably true that developing countries will upgrade their economic status only when they will improve the competitiveness of their economies by dismantling monopolies and reducing unnecessary protectionist policies. The EU is correctly encouraging developing countries through its various programs (aid for trade, GSP, free trade agreements) to promote domestic liberalisation.

2. Address Real Costs of Doing Trade

2.1 It is not clear why the focus of the attention of the EU trade policy has not shifted yet on dismantling the real barriers to trade that developing countries are facing. For instance, in the New Communiqué there is no mention of trade facilitation. Developing countries urgently need to upgrade their customs and other trade logistics sector in order to reduce costs of doing trade. The EU is not doing enough to promote this strategic tool.

2.2 The same can be said with regard to other trade-related infrastructure development. More than linking trade concession to the pursuit of human right, social or environmental policies (which are nonetheless fundamental components of a sound economy), it would be important to associate trade liberalisation to the improvement of transport, customs and logistic regulations.

2.3 The EU is becoming more and more active in signing comprehensive free trade agreements. In most of these FTAs the focus is still on tariff dismantling (especially on the partner-country side) and liberalisation of strategic service sectors (mostly finance and telecommunications). Developing countries need regulatory reforms in almost all sectors, and preferential liberalisation is a good way to push towards this end. In doing so, the EU should give priority to transport, logistic and customs modernisation, rather than focusing just on financial and telecommunication services.

2.4 The EU should also open some sectors of its procurement market to FTA partner countries, which could be strategic for developing countries to get better access to market for goods as well as services. This would help many developing countries to improve their competitiveness by getting better access to global value chains.

3. New GSP Policy: Will it deliver?

3.1 Most of the market access opportunities are still offered by the GSP scheme. One of the features of the New Communiqué is the reduction of the scope of the GSP scheme, which will be open only to least developed countries and to countries "most in need".

3.2 Studies (for example, *Impact Assessment of the GSP Regulation*, European Commission, 2011, http://ec.europa.eu/trade/wider-agenda/development/generalised-system-of-references/) have shown how middle-income countries were actually the main competitors to LDCs in their exports to the European markets. Indeed, the five largest exporters covered by the GSP scheme (China, India, Thailand, Brazil, Russia) account for more than 67 per cent of all GSP-covered imports to the EU, while LDCs cover only 9 per cent.

3.3 If the exclusion of emerging economies from the new GSP scheme effectively increases the market share of LDCs, the new policy is certainly to be praised. On the face it, it may sound a good policy to "deliver on development" but it should be evaluated by aligning consumer interests in EU countries and producer interests (particularly small producers) in exporting countries.

3.4 Furthermore, the success of this new GSP policy will depend on the scale of addressing supply-side constraints in LDCs – this is why there should be an explicit emphasis on trade logistics and other costs of doing trade in EU's strategies for trade, growth and development.

4. Foreign Direct Investment

4.1 Following the Treaty of Lisbon, it is expected that future EU treaties will contain investment chapters that will bind host countries to a certain regulatory standard. The New Communiqué made it clear that the EU development policy would use investment agreements in order to promote good governance.

4.2 In reality, there is little economic evidence of a direct positive link between international investment agreement and foreign direct investment, and even less so with regard to the promotion of good governance.

4.3 On the other hand, international investment agreements are mainly looked at as a tool to protect the interests of capital exporting countries and, if not properly designed with specific safeguards, they can reduce the policy space of host countries in respect to important socio-economic development objectives and regulatory policies. Encouraging FDI to developing countries is certainly a good policy but investment agreements may not have any positive influence in this regard. The EU countries should encourage foreign direct investment by developing the capacity of host countries in order for them to gradually adopt internationally-agreed regulatory standards on trade in services and in government procurement.