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EUROPEAN TRADE POLICY AND POVERTY REDUCTION: CHALLENGES AHEAD

Pierre Defraigne

*European Parliament, Committee on International Trade
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Ifri

27 rue de la Procession

75740 Paris cedex 15

Tél. : 33 (0)1 40 61 60 00 - Fax :33 (0)1 40 61 60 60

Eur-Ifri

Avenue d'Auderghem, 22-28

1060 Bruxelles - Belgique

Tél. : 32 2 238 51 10

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I don't think I need in front of such a well informed audience to dwell on the achievements of EU trade policy with regard to development.

Let me instead take a very pragmatic view of the contribution EU trade policy could make to development in the future. Pragmatism is justified here for two compelling reasons.

On the one hand the link between trade and development is extremely complex : whichever comes first depends on particular circumstances which have to do with the size of the domestic market, the natural resources endowments, distances and physical conditions , but above all with the relevance of domestic policies interacting correctly or not with external conditions. The most bluffing case of success story is provided by Korea in the 50's. Korea was then a very poor and remote country hit by a terrible war; but against all odds, it has precisely taken advantage of the presence on its soil of large and affluent allied military forces to supply them as subcontractors of Japanese and later on of US and European MNC'S. A unique combination of preferential access to a high-powered " sort of imported market ", of FDI and of very bold and tough – quite violent too – development strategies have delivered a success story for which there is no recipe neither in 101 textbooks, nor in Bretton Woods IFI's recommendations. An heterodox mix of high tariffs and oligopolistic structures on the domestic market has not prevented, quite the contrary, a manufactured exports driven take off.

On the other hand, it's wrong to say that trade liberalization is always a win win game: despite the robustness of Ricardo's law on comparative advantages, there are winners and losers in the real world of imperfect competition, externalities and free movement of capital and technology: there are winners and losers among countries and within countries and therefore trade liberalization must be conducted with extreme care - in particular with regard its sequencing - by the most vulnerable countries and it must be flanked by accompanying policies in all countries, winners and losers, rich and poor.

Let me suggest five EU trade policy guidelines for supporting development.

First, let's precisely give a chance to winners: open up the EU market to emerging economies exports for they provide the dynamic for world growth through a more efficient international division of labour. Don't break up the world growth engine. China's and India's booming markets mean indeed rising exports prices and volumes for Latin American and African economies. There is here a strong case for an EU wide adjustment facility if we want –as we should- keep our market open to foreign competition, particularly from China. As a matter of fact , an EU-funded adjustment facility would make both Chinese and European better off than restrictive trade measures.

Secondly, focus on the supply side among the losers and among those countries which are left behind particularly in Sub-Saharan Africa and South Asia! Concentrate aid on infrastructure in order to compensate them for the unstoppable erosion of their trade preferences on advanced countries markets as multilateral liberalization and RTA's bring down tariffs and quotas: lowering transportation costs within and between poor countries amounts exactly to granting them tariffs differentials; it's even better since it generates trade and does not divert it , so it is both fair and efficient.

Thirdly, encourage South-South regional integration because trade and competition among neighbours and peers in development enhance growth, stability and reforms; it is also a good start for engaging in a multilateral liberalization process! But here I should warn against shallow integration of basic FTA type because they complicate business and divert trade with limited welfare gains. Go right away for deep integration, i.e tackling “behind the border” obstacles to trade, namely standards and norms, government procurements , investment and intellectual property and not just tariffs and quotas. But EU support to regionalism in the South should be explicitly development-driven, and for this it should fulfil three conditions –which by the way differ in three respects from the US approach: first, EU North-South RTA's should be negotiated as region-to-region agreements (no “hub-and-spokes”); second, they should not be of a mercantilist type, but deliberately asymmetrical to the advantage of the Southern partner and last but not least they should be flanked by North-South financial transfers geared towards capacity building and regional infrastructures.

Fourthly, EU should not give up its broad trade agenda which fits in its sustainable development agenda: it encompasses the Singapore issues, namely progress on trade facilitation which still pertains to the Doha Round, as well as investment, competition and transparency in public procurement which have been dropped in Cancun. In the same fashion, core labour

standards and basic environmental disciplines should remain among our key priorities because they are definitely part and parcel of a development agenda. WTO might not be the right place anymore to advance those objectives, but we should pursue them in other multilateral fora or through our bilateral trade deals, but again with a main focus on development i.e taking into account not only of the interests of our own companies, but those of the host countries. We could also push forward more compelling codes of corporate social responsibility in such a way that EU MNC's would pioneer labour and environment core standards in developing countries by complying abroad with some basic home-country legislation in those two key areas.

Eventually - although this is the most pressing issue - conclude successfully the Doha Round by making Hong Kong a success! What would mean success from a development standpoint?

- an effective agricultural deal which would eliminate trade distorting aids and increase market access for developing countries. Yet here we must act with caution if we are not to jeopardize Everything But Arms or to expose vulnerable countries' agriculture to the exports from the most competitive producers; subsistence agriculture is indeed the pillar of development in most least advanced countries and multifunctionality of agriculture is a universal reality ;
- a gradual but drastic reduction of the average protection level of the India market in line with China's own efforts, both in the interest of India and of its trade partners;
- a preferential access of the G90 exports to the G20 markets;
- something substantive on mode 4;
- a binding of G 90 tariffs as well as effective trade facilitation enforcement.

Let me wind up by insisting on the fact that trade creates opportunities, but does not deliver development. What really makes the difference is the quality of the domestic policies. And here there is no single model : each success story is unique indeed even if they share some limited, but crucial, common features. Therefore, EU's contribution to sustainable development must go beyond trade ; it must event go beyond its own ODA. EU can and must play a role as EU within the IMF and the World Bank whose leverage on domestic reforms and policies is more effective than its own : speaking with one voice on the board of those IFI's would allow EU to punch its full weight for advancing a reform agenda which would support developing countries' efforts for taking advantage of market access opportunities while securing them an indispensable policy space.