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# WORKING DOCUMENT

on trade and investment-driven growth for developing countries

Committee on International Trade

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***Trade and investment may drive growth in developing countries***

While trade and investment may have the effect of stimulating growth, neither has a decisive effect by itself. The structural weaknesses that affect developing countries — for example, shortfalls in human resources, governance and infrastructure — often hamper their access to world trade. Adequate technical and financial assistance is therefore necessary to enable them to seize opportunities.

Launched in 2005[1], the 'trade assistance' initiative works from this premise. It covers technical assistance for trade, the development of trade-related infrastructure, the consolidation of productive capacities and trade-related adjustments[2].

While trade assistance is drawn from a broad spectrum of backers, we find that it is generally based on identical models and does not necessarily meet the specific needs of each developing country. Not only does trade assistance need to be strengthened, it must also be targeted. In this respect, this rapporteur welcomes the Commission's proposal calling for greater differentiation in designing and implementing EU trade policy focused on development.

This rapporteur however considers it unfortunate that the Commission is not dealing with all of the consequences. Differentiated policies adapted to each country mean greater coordination among international backers, so that each is positioned according to their assets and abilities, as well as genuine collaboration with the governments of beneficiary countries.

***Enhancing cooperation among backers, and between backers and beneficiaries***

*Enhancing cooperation among backers*

Trade assistance is sourced from a host of backers who can run parallel projects within a single country without coordinating with each other. The lack of an overall strategic dimension results in less effective use of the funding allocated for economic development.

While this rapporteur welcomes the initiative of the Enhanced Integrated Framework (EIF)[3] for the least-developed countries, she is critical of the poor results and raises the question of what real impact this is having.

While the WTO should be supported in its role as coordinator, cooperation between backers could take a less formal dimension, through the organisation of partnerships and forums. For example, the United Nations Conference on Trade and Development organises an annual forum on commodities[4] and a biennial forum on investments[5]. In view of their growing share in the emerging developing economies, services must also be among the subjects discussed at these meetings.

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[1] WTO Ministerial Conference in Hong Kong, 2005.
[2] See http://ec.europa.eu/europeaid/what/development-policies/intervention-areas/trade/aid-for-trade_en.htm
[3] Introduced in 1997, including the IMF, the International Trade Centre, the UNCTAD, the UNDP and the World Bank, as well as special allocation funds.
[4] UNCTAD Global Commodities Forum.
[5] UNCTAD World Investment Forum.

The Commission, the Member States and their agencies must ensure that the projects implemented complement each other, in accordance with their international commitments[1]. Similarly, the EU itself must also combine the various aspects of its external action in a way that will optimise their impact.

*Using each backer's assets in the best possible way*

In its communication, the Commission considers that the EU is 'leading on Aid for Trade (AfT)'. While the EU remains the largest backer of AfT, with EUR 10.7 billion committed in 2010[2], it still follows a traditional approach to trade for development (franchises of customs rights, a system of generalised tariff preferences and asymmetric trade agreements).

This rapporteur considers that the EU is failing to make the most of some of its assets, particularly its clout within the multilateral system and its control over international trade regulations. By relying on such assets, it could offer greater technical assistance to trade, which offers the advantages of not straining a budget that has already been diminished by the financial crisis and of having a longer-lasting effect when compared with purely financial support.

The EU could also play a supporting role in helping developing countries that are not already members to join the WTO. This rapporteur welcomes the WTO's recent decision to simplify the entry procedures for developing countries. In the same vein, the EU must also step up the pressure so that negotiations on the trade facilitation agreement can be concluded as soon as possible.

The EU's technical assistance must translate into support for the implementation of existing international trade provisions, such as:

- teams of European negotiators with expertise in different types of agreements and negotiation techniques could help developing countries in preparing their trade strategies, maybe even helping during negotiations, and promote best practices in this area (escalation clauses, mutual recognition, etc.);

- unlike the EU, developing countries have very little recourse to the WTO's Dispute Settlement Body[3]. Here the EU could act as an advisor in terms of the possibilities offered by the WTO's consultation centre or for the identification of the trade barrier that could be subject of an appeal.

Other actions could be taken, particularly in the areas of intellectual property rights, public contracts and sanitary and phytosanitary standards (especially supporting basic agricultural

[1] In particular, Seoul Development Consensus for Shared Growth, 12 November 2010.

[2] 2012 communication on Improving EU support to developing countries (annex to EU monitoring report on aid for trade, 2012).

[3] While the number of appeals lodged by developing countries has increased noticeably in recent years, it has been noted that just six countries account for 60 % of appeals by developing countries and that among the least developed countries (LDCs), only Bangladesh has appealed.

products).

*Assisting and supporting national initiatives*

During its most recent meeting, the UNCTAD clearly indicated that 'the elaboration of appropriately targeted and calibrated national development objectives and strategies, that integrate mainstream trade and investment policies, [should remain] an enduring concern'[1]. In order to be effective, every measure should be prepared in cooperation with the government in question, which should in turn fully adopt this measure.

The trade policies of developing countries must support other national policies. The agricultural sector in particular must be given priority, as although it remains an essential economic sector in developing countries, only 5 % of public development assistance is allocated to it[2].

Trade policies must be complemented by policies aimed at offsetting the structural weaknesses referred to above. Transport, energy infrastructure, port infrastructure and telecommunications are key sectors to reinforce with a view to facilitating trade.

Above all, the EU must reconsider its plans for regional trade integration: its present attitude tends to spark resentment within developing countries and can have a counter-productive effect by hampering the development or activity of the regional organisations that are already in place. If trade integration in global markets provides a useful tool for a country's economic growth, the development of regional and local markets is a fundamental preliminary stage to this, and one that must not be hindered or neglected.

Lastly, the EU must respect the choices and needs of its partners within trade negotiations by endeavouring to broker agreements according to the level of development of each country.

***Adapting to a new economic and geopolitical context***

*Adapting to the consequences of the economic and financial crisis*

The crisis has had the effect of reducing the capacity of developed countries for funding trade assistance. To keep aid at a satisfactory level, the EU must make efforts to use the funds at its disposal effectively, by limiting the costs of operations and monitoring aid for trade.

The principles of the Paris Declaration on Aid Effectiveness[3] still remain relevant, yet should take greater account of the regional dimension. The Commission communication '*Improving EU support to developing countries in mobilising Financing for Development*'[4] contains interesting proposals in this regard, which this rapporteur would like to see take definite shape soon.

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[1] See http://unctad.org/meetings/en/SessionalDocuments/td500_Add_2en.pdf
[2] Compared with 17 % in 1979. *Source:* FAO.
[3] 2005, see http://www.oecd.org/development/aideffectiveness/34428351.pdf.
[4] See http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2012:0366:FIN:EN:HTML.

It has also been noted that, in contrast to trade, investment has yet to return to pre-crisis levels. The EU must also promote new forms of financing and investment. The Busan Conference[1] put forward the idea that private international capital could be a source of financing and investment in developing countries. Particular attention needs to be paid to the forms of cooperation for development through mobilising public and private capital (sponsoring, co-financing and public-private partnerships) and to seeking out new sources of financing (e.g. a tax on financial transactions).

Lastly, developing countries need to bank on increasing internal demand and further diversifying their exports. Job creation and increasing production capacity deserve special attention, as does the services sector (particularly e-commerce and tourism).

*New global geopolitics*

The major emerging countries — Brazil, Russia, India, China and South Africa (BRICS) — find themselves in the particular situation of being both the beneficiaries and donors of aid for development and trade. In 2011, their leaders agreed on a common declaration[2] in which they underlined that 'growth and development are central to addressing poverty'. Their objectives are therefore similar to those of developed countries.

In any case, and contrary to EU practice, the assistance at their disposal largely consists of technical assistance and funding for infrastructure. Developed countries must take this position into consideration and adapt to it by proposing complementary actions. The EU could also take this opportunity to construct an effective partnership with the major emerging countries.

Similarly, developing countries need to adapt to this new situation, and the BRICS nations ought to make further efforts towards countries with lower incomes, particularly by offering greater access to their markets through tax exemptions and avoiding resorting to tied aid.

*New imperatives: the trend for sustainable growth*

In its foreign relations, the EU needs to act in the same way as it does in Europe, by encouraging programmes and actions that enable sustainable growth and development.

This rapporteur supports sectoral programmes and initiatives such as the Forest Law Enforcement, Governance and Trade (FLEGT) programme [3] and the Extractive Industries Transparency Initiative (EITE)[4] which have proved effective by promoting fairer trade, by allowing for the creation of a favourable climate for investment and by reinforcing the involvement of civil society.

Green growth represents a special section of sustainable development. In 2011, the OECD set

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[1] See http://www.aideffectiveness.org/busanhlf4/images/stories/hlf4/OUTCOME_DOCUMENT_-_FINAL_EN.pdf
[2] Sanya Declaration.
[3] *Forest Law Enforcement, Governance and Trade*, EU action plan against the illegal wood trade.
[4] *Extractive Industries Transparency Initiative*, see http://eiti.org.

up a strategy[1] aimed at a successful transition towards green growth. It places particular emphasis on the need to help labour markets in adjusting to the new requirements and in preparing for the redistribution of income for the benefit of the wider majority. This rapporteur adds that developed countries need to supplement any efforts at promoting green growth by preventing recourse to unjustified protectionism.

This rapporteur welcomes the recommendations of the UNCTAD calling for a new generation of investment policies that will promote inclusive growth and development. The OECD's policy framework for investment action provides clear, relevant instructions in this regard which deserve to be promoted.

Lastly, this rapporteur supports programmes and provisions in favour of corporate social responsibility and believes that the EU, as befits its influence in international trade, plays a fundamental role in promoting and encouraging social and labour standards throughout the world.

[1] See http://www.oecd.org/greengrowth/towardsgreengrowth.htm. Strategy updated in June 2012, see http://www.oecd.org/greengrowth/50480040.pdf