

The relationship between development and trade policies: The Doha Round and the European Economic Partnership Agreement

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The link between trade and development was at the heart of a speech given by the Federal Minister Heidemarie Wieczorek-Zeul on the 20th of February, 2006, in the Friedrich Ebert Foundation's European Office in Brussels. We are now publishing this speech, in which she demands that trade and development should be used as instruments of global governance. Particularly after the WTO Conference in Hong Kong, it is vital not to neglect the significance of the Doha Round in terms of development policy. The linking of development and trade in the European context is reflected in the Economic Partnership Agreement currently being negotiated between the EU and the ACP states. Both the Doha Round and the EU-ACP Economic Partnership Agreement now offer the opportunity to make a contribution to constructing a world trade system which will promote development, summarises the Minister.

Ladies and Gentlemen,

I would like to thank the Friedrich Ebert Foundation very warmly for organising this event, and for creating an opportunity, so soon after the WTO meeting in Hong Kong, to discuss such a topical subject. There is no better place than Brussels, the "political capital of Europe", to discuss the subject of trade.

Trade and development as global governance instruments.

Development policy is global structural policy. It should **change international structures at various levels to promote development**, or shape globalisation – in every dimension, economic and social, but also environmentally and politically. Economic and social shaping of globalisation also means above all **the reform of world trade and the implementation of core labour standards**.

The current **international world trade order advantages economically stronger countries. The least developed countries (LDCs) are broadly disconnected from the dynamic processes of cross-linking markets**. The share of the poorest LDCs in worldwide export figures since 1980 fell from around 0.72% to around 0.5% in 2005. If poorer developing countries are to be able to use the opportunities offered by globalisation, **then industrialised and threshold countries must open their markets far more than they have so far to exports from developing countries**. Export subsidies and customs' duties must be dismantled, a theme I shall return to later.

The economic and social dimensions of globalisation should be considered together, since sustainable development demands that **social and environmental standards should be respected**. Global competitive pressure should not reduce countries to the status of potential investment sites. Globalisation is only viable in the long term, and accepted in all countries (including industrialised countries!), if social demands are adequately taken into account.

The ILO's World Commission on the Social Dimension of Globalisation has identified these interconnections. One important point amongst their recommendations is that **consistency** between policy areas should be improved. To do this, greater cooperation between states and international organisations is necessary. We need good global governance at a global level.

significance of trade to development

There is a chain reaction: trade can make a contribution to growth, and growth makes an important contribution to combating poverty, and to achieving the millennium objectives. **But it is important to keep in mind** that trade liberalisation does not lead automatically to an increase in trade, nor, above all, to more exports from developing countries, nor does more trade automatically reduce poverty. This point needs to be part and parcel of a consistent development strategy.

There are three central conclusions to be drawn:

1. **A flat-rate, undifferentiated liberalisation of trade should not be the aim.** The principle of special treatment accorded to developing countries must be appropriately maintained, both for agricultural produce, and for industrial goods and services. This is essential in order to protect food supplies, and to protect and support people who are building up their own production. It is true that the threshold countries do not have the same needs as poorer countries. Greater distinctions should be drawn between countries than we have now, since we only distinguish between LDCs and other developing countries. Countries like Brazil and India should not be able to take refuge behind rules on waivers, which are designed to help countries like Burkina Fasso and Kenya.
2. **Many developing countries need support in implementing trade agreements and in creating trade capacities:** so slogans like "trade, not development aid" are wrong. What is really needed is the creation of new trade possibilities for developing countries by opting for development oriented liberalisation in industrial and developing countries, and trade based support through development cooperation, or "aid for trade", as this approach is now known. German development cooperation has already achieved a great deal. Germany is the second largest bilateral donor (2001-2004).
3. Steps taken to liberalise trade must meet the requirements for socially and ecologically sustainable development in the country concerned, and should largely be embedded in a multilateral overall strategy for the particular region.

The potential for trade liberalisation:

The last study by the World Bank showed that implementing a global liberalisation programme for developing countries would lead, by 2015, to revenue more than \$200 billion higher than could be achieved without such liberalisation. (A degree of healthy scepticism is always appropriate when reading such studies. But in this instance the service sector, for example, was not taken into consideration, so this figure cannot be regarded as unrealistic). By way of comparison, worldwide ODA at the moment is running at around \$80 billion.

Two points are of interest here:

1. Around half the growth in developing countries is generated from liberalisation within the group of developing countries, and from the constant growth, therefore, in South-South trade. This should be remembered when special rules for developing countries, such as the dismantling of customs' duties, are being considered. They should not have a restrictive effect on more trade between developing countries.
2. It is not a new discovery, but, nonetheless, worth repeating, since it explains the interest shown by developing countries in the agricultural sector: almost two-thirds of the growth in income in developing countries comes from the agricultural sector, including further processing of raw materials.

What does all this mean for the Doha Round? And what is the current position after the Hong Kong Conference?

The figures that have been quoted have to be brought to life: We must not miss the opportunity of creating a strong impetus for development because of a lack of a real will to make reforms on the part

of all the parties involved. The outcome of the Doha Round must promote development, as indeed the Doha Ministerial Declaration indicated.

What was achieved in Hong Kong? What is the value of the outcome?

The adoption of the development package is an important step towards fairer trade relations and a more just form of globalisation. But a great deal of work still needs to be done on the core subjects, so that the development round justifies its name, and that it is possible to reach a conclusion in 2006.

Positive factors in terms of development policy:

Establishing a target deadline – 2013 – for the expiry of agricultural export subsidies, 2006, in fact, in the case of cotton. Obviously, I would have been much happier with a date long before 2013! But we should not forget that people have been arguing about the subject for decades already. Given that background, getting a date is a real victory!

Duty and quota free market access for LDCs in all industrialised countries for 97% of their products by 2008. The EU has been in the vanguard on this since 2001 with its “Everything But Arms” Initiative. However, one critical point to make about the decisions taken in Hong Kong is that the other 3%, looked at in the light of the very restricted range of what most poor countries have to offer, could mean a great deal. However, for cotton, duty and quota free access to markets is guaranteed.

The TRIPS Agreement, arrived at shortly before Hong Kong, to improve poor countries’ access to generics. It was high time that the decision made in July, 2003, was at last legally implemented. This decision was often reproached by those who thought that it would create big practical obstacles, that it would be more difficult to implement. So we should not simply rely on the opportunities it offers, but also support developing countries in their efforts to strengthen their own pharmaceutical manufacturing capacity.

Reinforcing the importance of trade-related development cooperation (Aid for Trade) by means of a Ministerial Declaration. Many of the preconditions still need to be created in developing countries, so that they can actually derive real benefit from improved market conditions.

Less welcome results:

For core subjects such as agriculture, industrial goods (NAMA), and services, the Doha Round is still a long way from any meaningful breakthrough. And yet, as I’ve said, these areas are where the greater potential lies.

The success achieved on the cotton issue is still ambiguous. It has been agreed that the cotton export subsidies should be dismantled, but there are still no mandatory rules on how internal subsidies should be handled. The EU has taken the first step in making its reforms. But we must remain very determined, with a particular eye on what the USA is doing.

How can the Doha Round be brought to a conclusion?

All parties involved know that in order to achieve a substantial overall result, they must continue to move forward. This means the threshold countries (especially Brazil and India) with industrial duties, the USA with its domestic supports (including cotton), and the EU itself in agriculture.

The timetable is very tight. The Trade Promotion Authority in the USA is to come to an end in 2007, so in practical terms, the breakthrough has to come in the coming months. The principle of everybody waiting until someone else makes a move is not going to help, the negotiations will be blocked. So intensive consultations have to continue with the main partners so that the different positions held can move closer together. Strong exporting countries such as China, Brazil, and India, can benefit from the Doha Round. But they too have to open up their own markets, not just to industrialised countries, but also to the poorer developing countries. The EU is right on this – the Doha Round is not just an agricultural round, even if that is the main area of interest for developing countries.

But there is a further challenge for the EU. It has to make more of an effort than it has so far to turn its wishes into reality. It must be made quite clear to our partners that the EU has still not said its final piece. If the EU gets clearly better market access, it must be ready to give ground in market access for the agricultural sector.

At this point, I would like to say something more about European agricultural policy. Firstly, for the attention of the agricultural lobby, which is refusing to move any further. The European agricultural model is not going to be intrinsically challenged, that is clear to me too as a politician involved in development. Support is still going to be required for caring for the countryside, for maintaining rural areas, and for ensuring our domestic food production. But decades of structural change have demonstrated that this is feasible with a much lower proportion of GDP. Agriculture's share of European GDP is now well below 2% (for the EU of 25 in 2003, 1.6%), ranging from 0.5% in Luxembourg to over 5% in Greece.

The GAP reform, separating subsidies from the level of production, is the right approach. It should be pursued to its logical conclusion. This would create more margins for manoeuvre for dismantling trade-distorting subsidies, without overall support for agriculture having to be reduced. We must avoid forces of inertia getting in the way of developing countries – but also other sectors in Europe and other industrial countries – being able to realise their development potential and exploit opportunities for growth. So further structural change is absolutely unavoidable. Postponing such changes may, in the short-term, be politically defensible, but should not be allowed to block creating fairer world trade relations.

European Economic Partnership Agreement

Another example of the benefit of linking European trade and development policies is provided by the EU's Economic Partnership Agreements currently being negotiated with the six regional groups constituted by the 79 African, Caribbean, and Pacific countries, the ACPs. Why did these Economic Partnership Agreements become necessary? Unfortunately, after years of the one-sided preferences system with the ACPs, we find:

1. They have not succeeded in diversifying and increasing their exports to the EU, they lack the production and trade capacity.
2. The present one-sided preferences system for the ACPs is not compatible with the ground rules of the WTO, since the group of ACP states was not created for objective reasons, but was a hangover from our political history.

What do the Economic Partnership Agreements seek to achieve? They are instruments intended to support ACP countries as they gradually integrate themselves into the world economy. They are important instruments in the Cotonou Agreement of 2000, where the EU and the ACPs reorganised their economic and trade cooperation. On the one hand, they act as trade policy instruments, since they aim at establishing free trade zones between the EU and six EPA regions. But at the same time – maybe more significantly – they are development policy instruments. Let me explain:

1. They are intended to make a contribution to reinforcing integration within a given region, since trade barriers within a region are often greater than those between North and South.
2. They aim at increasing market access for the ACPs to the EU; from a development policy point of view, we believe that the negotiating objective of having duty and quota free market access for all the ACP countries is right and proper, as long as the ACPs are ready to embark on adequate reforms which will constitute the basis for sustainable development.
3. The Economic Partnership Agreements will bring a cautious opening of the ACP markets, creating an asymmetric reciprocity. This should be achieved by leaving sensitive products and sectors out of the liberalisation process, or by long transitional periods being agreed. It is also necessary to review, and where necessary, to restructure the liberalisation process. The liberalisation process and the integration it would bring into the world economy, could be organised so that it was compatible with the WTO rules, and at the same time, the individual levels of development and the interests of the ACP countries could be taken into account.
4. We hope that the Economic Partnership Agreement will act as an impetus for institutional reform and good manifestations of government, since it deals with trade-relevant areas in which the ACPs have displayed interest – for example, customs' procedures or investment.

5. The Agreements should be built on the participation of civil society. Here I would particularly like to thank the FES, which has devoted much successful effort to promoting participation by civil society in the EPA process. Unfortunately, I have to add that there is still much to be done.
6. The Economic Partnership Agreement brings together, in unique fashion, trade policy measures and the support of numerous measures used in development cooperation. The negotiating, production, and trading capacities of the ACP countries can thereby be reinforced, and support given to reform processes.

The role of Germany as an EU member state consists, for me, in our putting every effort into ensuring that the development policy aims of the EPAs are pursued. We therefore seek deeper dialogue with those involved. In the spring we are having a conference with InWent on the Economic Partnership Agreement, and we will be following the negotiations process very closely.

Summary

The Doha Round and the EU-ACP Economic Partnership Agreement now offer the opportunity of making a contribution to structuring the world trade system in a way that promotes development. The twofold task of the development politician is to influence the negotiating process in such a way that this opportunity, which is not going to come by again that quickly, is not missed, and also to push for the necessary support for developing countries through development cooperation, so that the newly-created potential can also be exploited.

Let me finish with a quotation from Johannes Rau from his Berlin speech in 2002, which may not have been explicitly directed at developing countries, but which is very true of developing countries where trade is concerned – “ Nobody is free just because they can take part in a free market. But everybody loses a degree of freedom if they are excluded from the market”.

Further sources of information on this subject may be found on the Internet:

Friedrich Ebert Foundation on the Cotonou Agreement and Economic Partnerships:
<http://fesportal.fes.de/pls/portal30/docs/FOLDER/COTONOU/content/en.html>

BMZ Globalisation and Trade
<http://www.bmz.de/de/themen/globalisierung/index.en.htm>

European Commission DG Trade: Trade and Development
<http://europa.eu.int/comm/trade/issues/global/development/index.en.htm>

DG Trade: Negotiation of Economic Partnership Agreements (EPAs) with ACP countries
<http://europa.eu.int/comm/trade/issues/bilateral/regions/acp/nepa.en.htm>

European Commission DG Development: Cotonou Agreement between ACP countries and the EU:
<http://europa.eu.int/comm/development/body/cotonou/index.en.htm>

European Parliament Development Committee:
<http://www.europarl.eu.int/committees/deve/home.en.htm>

European Centre for Development Policy Management (ECDPM)
<http://www.ecdpm.org>

WTO Trade and Development:
http://www.wto.org/english/tratop_e/devel_e/devel_e.htm