



# The EC Communication on Trade, Growth and Development:

## Where Is the Strategy?

Patrick Messerlin

**I**n January 2012, the European Commission (EC) released a Communication stating its views on the EU trade–growth–development policy nexus for the coming decade. This is organised in a complex three-step framework: priorities for the decade; recommendations supporting these priorities; and initiatives supporting these recommendations. As the Communication deals with an extremely wide range of issues, it is beyond the scope of this brief section to do justice to all its aspects. Rather, it discusses the rationale behind what are supposed to be the two strategic pillars of the Communication.

### **Priorities: the value of ‘differentiation’**

The Communication’s first priority calls for more *‘differentiation among developing countries in order to focus on the poorest’* and coping with widening differences among developing countries. It defines differentiation as entailing a broadening of the range of EU trade measures: *‘emerging economies and poorer ones have different potentials, needs and objectives, thus [require] a different policy approach’*.

At first glance, the Communication’s approach looks attractive. However, it raises two fundamental questions;

First, it does not fully draw lessons from the way China has been integrated into the world economy during the past three decades. Before its accession to the WTO, from the mid-1980s to the early 2000s, China pursued a steady unilateral liberalisation. Then, China agreed to a Protocol of Accession to the WTO which imposed on it much deeper and wider concessions than for all the other WTO members. These harsh conditions raise serious questions as to the ultimate value of an approach based on differentiation.

China has shown that a sound domestic agenda and the ability to stick to this and to make trade policy supportive of it (and not a quasi-autonomous policy) are much more powerful drivers of successful development than differentiating the trade policy of its trading partners.

On the EU side, differentiation generates a serious problem the Communication does not examine. A differentiation policy opens the door to a potentially unlimited list of different trade (and non-trade) measures, each of them tailor-made to different developing countries. The more numerous these measures, the harder it is for the EU to integrate them into a consistent EU trade policy. This difficulty is amplified by the fact that a comatose Doha leaves preferential trade agreements (PTAs) as the only instrument left for market opening, which presents the risk of very diverse PTA texts, including in terms of legally binding commitments. The current EU PTAs show that the value of non-binding texts is highly questionable, since such texts create too high expectations, leading to commensurably high disillusion.

### **Recommendations and initiatives**

The Communication then goes on listing recommendations and initiatives. The list is so long it makes the reader dizzy, and is so heterogeneous one wonders about its central rationale. Moreover, it is so profuse in good intents that credibility becomes questionable: its high praise of Economic Partnership Agreements (EPAs) with the African, Caribbean and Pacific (ACP) countries does not fit with the lack of enthusiasm of these countries to conclude them; environmental reforms are not valued highly in the world’s poorest world countries – poverty imposes growth at any cost; and the link between trade policy and democratic reforms is (unfortunately) tenuous.

Of course, some topics mentioned by the Communication should easily gather a wide consensus: trade facilitation, FDI and services, for instance. But other components – social and environmental regulations, intellectual property rights (IPRs), competition policy, to mention a few of them – raise a host of questions and deserve much more careful justification of their presence in the Communication.

The Communication rarely takes pain to justify these topics – the extent to which trade policy contributes to a solution to the problems at stake or is conducive to growth. For instance, what is the value of an initiative ‘*facilitating the use of intellectual property tools [what is the difference between tools and rights?] by small producers and farmers?*’ As an example, geographical indications have been available to French wine producers for decades, yet have been very successful in Champagne and disappointing in Bordeaux. As both rely on small farmers, success and failure depend on something else – the fact that Champagne relies on a concentrated sale structure that does not exist in the Bordeaux case. The initiative suggested by the Communication is not helpful here.

Justifying measures would be all the more useful because the Communication itself shows the limits of trade policy, as illustrated by the additional preferences granted to Pakistan following the floods of July 2010. In this case, the Communication:

- First acknowledges that these additional preferences did ‘*not trigger a swift enough reaction*’. This suggests what was at stake was Pakistan’s capacity to mobilise other products for exports, mainly meaning domestic supply problems (not trade ones). In short, additional preferences did not resolve whether the problem at stake was a trade problem (possibly calling for trade measures);
- Then mentions that these additional preferences ‘*caused concerns as to the possible trade diversion impact on other poor economies*’. This remark underlines the risks of multiplying trade measures in an integrated world economy in which every measure can have unintended and substantial effects on other measures. Multiplying measures risk lowering their efficiency.

Finally, the Communication leaves the reader with an uneasy feeling on two levels. Economists know trade policy is a very attractive instrument because it looks powerful, but its power can easily turn good intentions into ‘hell’. Meanwhile, foreign affairs specialists feel this Communication goes much too far in matters which are fundamentally – and should remain – the domain of foreign affairs.