



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 18.9.2002  
COM(2002) 513 final

**COMMUNICATION FROM THE COMMISSION TO THE COUNCIL AND THE  
EUROPEAN PARLIAMENT**

**TRADE AND DEVELOPMENT**

**ASSISTING DEVELOPING COUNTRIES TO BENEFIT FROM TRADE**

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## List of Acronyms

|              |  |
|--------------|--|
| ACP          | African, Caribbean and Pacific   |
| ADB          | African Development Bank   |
| ALINVEST     | Latin-America Investment Promotion Programme                                       |
| ALA          | Asia, Latin America  |
| ASEAN        | Association of South-East Asian Nations  |
| CSP          | Country Strategy Paper   |
| DAC          | Development Assistance Committee of the OECD                                       |
| DDA          | Doha Development Agenda  |
| DDA GTF      | Doha Development Agenda Global Trust Fund  |
| DTIS         | Diagnostic Trade Integration Study   |
| Doha         | 4 <sup>th</sup> WTO Ministerial conference in Doha, Qatar, in November 2001        |
| EBA          | Everything But Arms Initiative for Least Developed Countries                       |
| EBAS         | EU-ACP Business Assistance Scheme  |
| EDF          | European Development Fund  |
| EDI          | Electronic Data Interchange  |
| EPA          | Economic Partnership Agreement   |
| FDI          | Foreign Direct Investment  |
| GATS         | General Agreement on Trade in Services   |
| GATT         | General Agreement on Tariffs and Trade   |
| GSP          | Generalised System of Preferences  |
| IAWG         | Inter Agency Working Group   |
| IDB          | Inter-American Development Bank  |
| IF           | Integrated Framework for Least Developed Countries                                 |
| IFI          | International Financial Institutions   |
| IFSC         | Integrated Framework Steering Committee  |
| ILO          | International Labour Organisation  |
| IMF          | International Monetary Fund  |
| IP           | Intellectual Property  |
| ITC          | International Trade Center   |
| Johannesburg | UN World Summit on Sustainable Development, Johannesburg, Sept 2002                |
| LDC          | Least Developed Country  |
| MEA          | Multilateral Environmental Agreements  |
| MED          | Mediterranean  |
| Monterrey    | UN Conference on Financing for Development (held in Monterrey, Mexico, March 2002) |
| NIP          | National Indicative Programme  |
| OECD         | Organisation for Economic Cooperation and Development                              |
| PRO INVEST   | Investment Programme for ACP Countries   |
| PRSP         | Poverty Reduction Strategy Paper   |
| RIP          | Regional Indicative Programme  |
| RSP          | Regional Strategy Paper  |
| RTA          | Regional Trade Agreement   |
| SPS          | Sanitary and Phyto-sanitary  |
| SDT          | Special and Differential Treatment   |
| TBT          | Technical Barriers to Trade  |
| TRA          | Trade Related Assistance   |
| TRIPS        | Trade Related Intellectual Property Rights   |

|             |  |
|-------------|--|
| TRTA/CB     | Trade Related Technical Assistance and Capacity Building                   |
| UN          | United Nations   |
| UNCTAD      | United Nations Conference on Trade and Development                         |
| UNDP        | United Nations Development Programme                                       |
| UNEP        | United Nations Environment Programme                                       |
| UR          | Uruguay Round  |
| WB          | World Bank   |
| WCO         | World Customs Organisation   |
| WHO         | World Health Organisation  |
| WIPO        | World Intellectual Property Organisation                                   |
| WSSD        | World Summit on Sustainable Development (held in Johannesburg, Sept. 2002) |
| WTO         | World Trade Organisation   |
| WTO TA Plan | World Trade Organisation Technical Assistance Plan                         |

## EXECUTIVE SUMMARY

### **Building on Doha, Monterrey, and Johannesburg**

The importance of the relationship between development, trade and integration of developing countries into the world economy has been increasingly recognised at the international level, and notably at three major conferences over the last year:

- The Fourth Ministerial Meeting of WTO Ministers in Doha in November 2001 launched the Doha Development Agenda, a new approach to trade, centred on development and supported by capacity building to help all countries to participate effectively in those negotiations. The new approach aims at fostering development directly, rather than by simply granting developing countries more time to adapt and to implement agreements<sup>1</sup>.
- The UN Conference on Financing for Development in Monterrey in March 2003, at which world leaders stressed the importance for development of support to remove supply side constraints to trade and of effective, secure and predictable financing of trade related assistance and capacity building.
- And most recently, in the Johannesburg World Summit on Sustainable Development (WSSD), world leaders recognised the importance of trade for sustainable development by underlining the need for further efforts in support of sustainable trade, beyond those already made in Doha and in Monterrey, and by stressing the need for mutually supportive trade, development and environment policies. Key outcomes in Johannesburg include: the need to promote a supportive and open international economic system that would lead to economic growth and sustainable development in all countries and better address the problems of environmental degradation; the recognition of the potential of regional agreements to contribute to sustainable development; the commitment to support capacity building to enable commodity dependent countries to diversify; the encouragement for use of national impact assessment to identify trade, environment and development linkages; and finally, the support for initiatives to encourage trade in environmentally friendly goods and services, including organic products.

Efforts are now required to transform these commitments into action.

### **What this Communication is about**

In this context, the purpose of this communication is to spell out the way the EU can fulfil its global commitments in support of the efforts of developing countries to better reap the benefits of trade and investment. In doing so, the communication:

- Stresses the fact that trade can foster growth and poverty reduction and be an important catalyst for sustainable development. Those countries that have integrated into the world

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<sup>1</sup> This programme, known as the “Doha Development Agenda”, comprises several instruments: a Ministerial Declaration setting out the mandate for negotiations in a number of areas, as well as a work programme for WTO Members in other areas, a Ministerial Decision on implementation-related issues and concerns (which deals with some of the difficulties that developing WTO Members have had in implementing certain WTO Agreements), and a Ministerial Declaration on the TRIPs Agreement and public health (which deals with the relationship between intellectual property rights and public health issues).

economy through trade and investment have enjoyed higher economic growth and an improvement in many key social indicators. In recognition of this, in 2000 the EU identified trade as one of the six priority areas for development policy<sup>2</sup>. However, trade openness alone is not sufficient to combat poverty and the extent to which trade contributes to poverty reduction depends on other policies as well. Trade reform must be part of a wider, country-owned poverty reduction strategy for which a combination of better domestic policies and additional external support is needed.

- Identifies essential elements to ensure a better contribution of trade to economic growth and sustainable development through the integration of trade and development strategies: (i) sound macro-economic policies, effective economic and social governance, and human capital development, including the promotion of core labour standards<sup>3</sup>; (ii) better market access and balanced trade rules to underpin domestic reform; (iii) trade-related assistance and capacity building to help developing countries with these tasks.
- Underscores the fact that multilateral trade negotiations under the Doha Development Agenda, together with certain bilateral and regional initiatives, and support for regional integration among developing countries, are the vehicles to pursue market access<sup>4</sup> and improved rules. In the DDA, the Commission will work to achieve an outcome that is development friendly in both areas. For example, market access, particularly in those products where developing countries have a comparative advantage, such as agricultural goods and labour-intensive manufactures, is of course extremely important for helping poor countries benefit from trade.
- Builds on the April 2000 Commission Communication and the November 2000 Joint Council-Commission Statement on the EU's development policy and identifies the main areas for the EU to concentrate its assistance for trade capacity building, which include (i) assistance for WTO accession and multilateral trade negotiations, (ii) support for the implementation of existing and future WTO agreements and (iii) support for policy reforms and investments necessary to enhance economic efficiency and to ensure greater participation in the world economy, including "trade and environment" technical assistance and capacity-building. In addition, trade capacity needs to be improved through other trade-related development assistance including promotion of sound macroeconomic, sectoral and tax policies that improve the investment climate, as well as support for private sector development; and support for the development of regional markets and institutions among developing countries particularly via the negotiation, implementation and application of bilateral and regional agreements with the EU.
- Stresses the need for coherence and synergies at all levels, notably as already indicated in the Communication "Towards a global partnership for sustainable development"<sup>5</sup>.

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<sup>2</sup> Commission Communication on "The European Community's Development Policy", COM (2000) 212 final, of 26 April 2000, and Joint Council-Commission Statement on the European Union's Development Policy, 10 November 2000.

<sup>3</sup> Commission Communication on "Promoting core labour standards and improving social governance in the context of globalisation.", COM(2001) 416 final, 18 July 2001.

<sup>4</sup> Without underestimating, however, the role that unilateral market access concessions, through the GSP regime and the EBA initiative for Least Developed Countries have played and will continue to play.

<sup>5</sup> COM (2002)82 final, 13.02.2002

- And finally, proposes some practical, concrete initiatives to ensure greater effectiveness of existing and planned EU actions (by the Commission and/or the Member States) or proposals (to the international community at large).

### **Concrete proposals for action**

The Communication proposes concrete proposals for action, grouped in three categories:

#### (a) Intensification of dialogue with partner countries

- a stronger emphasis on trade issues in the dialogue on Poverty Reduction Strategy Papers (PRSPs), or equivalent strategies;
- ensure that funding for this new priority, trade-related assistance, is adjusted as necessary in the review of the Country Strategy Papers and Regional Strategy Papers.

#### (b) Enhanced effectiveness of EU support

- reinforce trade component in the programming exercise in EU development assistance, relying on the Commission Task Force for Trade and Development;
- pay particular attention to the least developed countries and other low income countries;
- examine the scope for funding horizontal trade-related assistance initiatives, including bilateral, regional and multilateral initiatives;
- increase EU ability to design and deliver training programmes for negotiators and administrators, and establish networks in higher education institutions;
- provide technical assistance for sustainability impact assessments;
- reinforce efforts to improve developing country capacity in the Sanitary and Phyto-sanitary field.

#### (c) Contributing to international effectiveness

- ensure policy coherence in provision of trade related technical assistance, building on the principles agreed in the Commission Communication on Development in 2000;
- review existing mechanisms for co-ordination of Member States, and promote "best practices";
- co-operate more efficiently with other international organisations;
- continue to advocate the Integrated Framework for Least Developed Countries, and participate actively in governing bodies of the IF;
- encourage Regional Development Banks to pursue trade capacity building;
- support the WTO Secretariat on WTO Technical Assistance, and continue to contribute to the DDA Global Trust Fund.

Finally, the Communication proposes an overall review of EU trade-related assistance before the end of 2005.

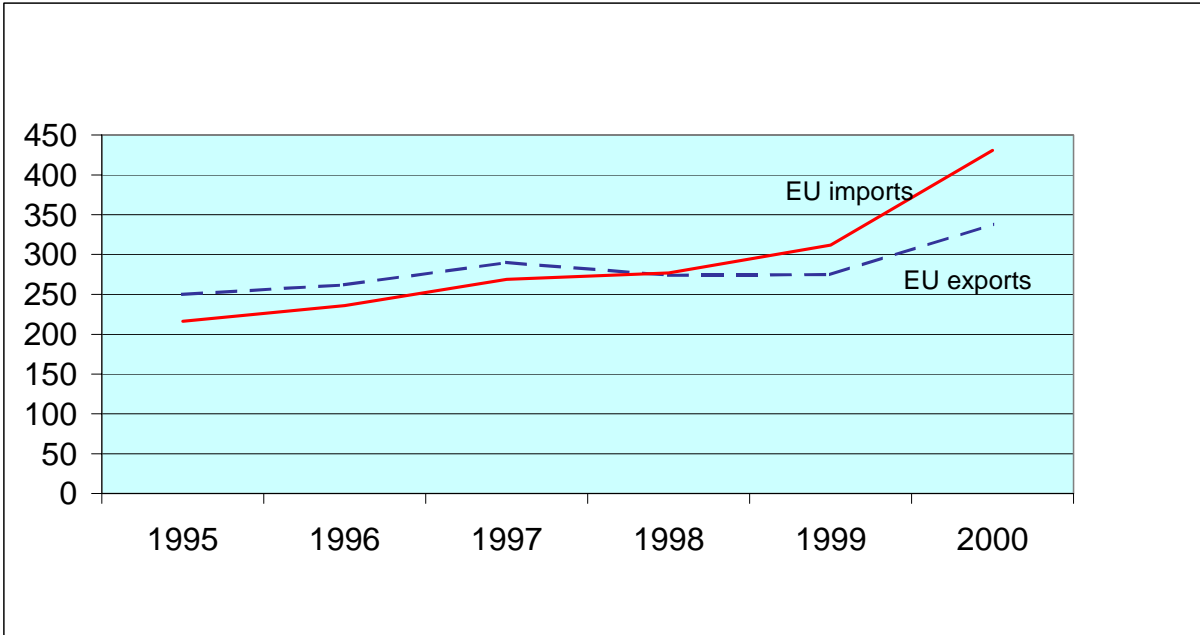
**1. TRADE, GROWTH AND POVERTY**

**1.1. The place of developing countries in world trade**

International trade flows have increased dramatically in the past three decades. An important feature of world trade over this period has been the growing participation of developing countries<sup>6</sup>, resulting in an increase in their share of merchandise exports from less than one fourth to almost one third between 1970 and 1999. Moreover these trends have been accompanied by a shift in the composition of their exports from primary commodities to manufactures, particularly since the early eighties. Manufactures now account for 70 percent of developing countries’ exports after hovering at around 20 percent during much of the seventies and early eighties. The share of agriculture commodities fell from about 20 to 10 percent over the same period<sup>7</sup>.

Trade between developing countries and the EU mirrors their increased integration into the world trading system. After several years of sluggish growth, developing countries’ exports to the EU have increased by 15 percent per year on average since 1995 and their trade balance with the EU went into surplus in 1999 (Figure 1). Developing countries as a whole now account for 42 percent of total EU imports, representing €432 billion in 2000.

**Figure 1: EU trade with developing countries 1995-2000 (billion €)**



Source: European Commission

<sup>6</sup> The group of developing countries includes all countries and territories classified by the OECD/DAC as recipients of official development assistance (ODA) and encompasses Least Developed Countries, Other Low Income Countries, Lower- and Upper-Middle Income Countries, as well as Malta and Slovenia. While most of the analysis is also valid for transition economies, the focus is on developing countries.

<sup>7</sup> “Trade and Development Report, 2002”, UNCTAD, Geneva, 2002.



## **1.2. Many developing countries are lagging behind**

However, the impressive performance of developing countries as a whole in terms of their increased share in world trade and their shift toward manufactures over the last three decades, hides two important facts. First, with the exception of a few East Asian newly industrialised economies, exports by developing countries are still concentrated on a limited range of products that are derived mainly from the exploitation of natural resources and/or products with low value-added that use mainly unskilled labour. These activities provide limited prospects for productivity growth. Even though statistics show a considerable expansion of developing countries' exports of technology-intensive goods, these countries are often involved in the low-skilled assemblage stages of international production chains. Most of the technology and skills are embodied in imported parts and components and the greater part of value-added accrues to producers in more advanced economies<sup>8</sup>.

Second, a large number of countries are not part of this integration process and actually experienced a decline of their share in world trade. Indeed, the export share of the 49 least-developed countries (LDCs) fell from 3 percent in the 1950s to around 0.5 percent in the early 1980s and has hovered around this very low rate over the last two decades<sup>9</sup>.

A combination of domestic and international factors helps explain why these countries are lagging behind. Policies that are not conducive to domestic or foreign investment and private entrepreneurship, low levels of education, corruption, high transport costs, poor quality of infrastructure and services, as well as, in some cases, civil unrest and conflict, are among the domestic reasons. At the international level key problems are dependence on a small range of commodities that suffer from worsening terms-of-trade; highly volatile world prices; strong competition among producers and limited competition among buyers; relatively high trade barriers throughout the world, especially in agricultural and labour-intensive goods; and persistent difficulties in exploiting trade preferences offered by OECD countries. Furthermore increased competition for foreign direct investment puts many smaller economies in a weak bargaining position when seeking to attract appropriate investment<sup>10</sup>.

## **1.3. Poverty, inequality and trade**

There is now a solid set of studies and empirical evidence on the impacts of increased participation in international trade and investment, from which two main conclusions can be drawn. Firstly, those countries with a higher level of participation in international trade and investment tend to show higher growth rates<sup>11</sup>. Secondly, if trade is to have a sustainable, positive impact on poverty reduction, it must be part of a wider, country-owned strategy, which includes a strong element of human capital development and pays attention to the situation of vulnerable groups, including women.

Greater trade openness is generally associated with higher economic growth, although both the direction of the causality and the measurement of "openness" continue to be debated. What can be said with relative certainty, though, is that in recent years "no country has

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<sup>8</sup> "Trade and Development Report, 2002", UNCTAD, Geneva, 2002.

<sup>9</sup> "Duty and Quota-Free Market Access for LDCs: An Analysis of QUAD Initiatives", UNCTAD Geneva, 2001.

<sup>10</sup> According to UNCTAD, developing countries share of FDI flows in 1999 declined for the second year in a row to 19% compared to a peak of 41% in 1994. In addition, FDI flows from the EU and US are projected to have fallen by 37% and 42% in 2001 and a rapid recovery seems unlikely.

<sup>11</sup> "Globalization, Growth and Poverty", World Bank, 2002, Washington, DC, and, "Trade, Growth and Poverty", Dollar and Kraay, mimeo, 2001.

developed successfully by turning its back on international trade and long term capital flows”<sup>12</sup>.

The gradual removal of trade barriers combined with domestic reforms, aimed at building up sound macroeconomic policies, effective institutions and regulations, and investment in infrastructure and human capital, generally results in a “virtuous circle” of opening up, greater competitiveness and higher growth (which tends to become more endogenous, even when originally export-driven).

The countries that have successfully combined more trade with higher growth and human development tend to have some key features in common. They have gradually opened up their economies as part of a wider development strategy based on two main pillars: improving the investment climate for the private sector to generate jobs and empowering poor people, especially through better education. This highlights the fact that the institutional and overall policy environment within which trade liberalisation takes place is the determining factor of the impact of trade reforms on economic performance<sup>13</sup>.

Regarding the relation between trade and inequality, research indicates that on average the poor benefit from trade-induced growth proportionately as much as the rest of the population<sup>14</sup>. In addition, as trade barriers in many countries often seek to protect a small privileged group, trade liberalisation tends to reduce monopoly rents and the value of connections to bureaucratic and political power<sup>15</sup>. Most studies conclude that trade does not impact extensively on social and economic inequality, which is mainly a function of domestic policies, on which trade has little impact<sup>16</sup>.

It is inevitable, however, that trade openness will result in restructuring of the economy, negatively affecting some sections of the population, particularly when it encourages the adoption of skill-biased technical change in response to increased foreign competition. The process of trade reform, in particular the sequencing and speed of the reforms and any accompanying measures must therefore be capable of addressing the potential adverse effects of trade opening. In particular, for trade to have a positive impact on sustainable development, it is important to ensure that increased trade and economic growth will not result in over-exploitation of natural resources. Otherwise, short term economic gains are likely to be offset by medium or long-term costs, including economic costs, due to environmental and health related consequences.

The above brief analysis indicates that in order for trade to contribute to the fight against poverty and inequality and maximise the potential benefits of higher integration into the world economy, trade reforms must be part of a wider sustainable development strategy that

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<sup>12</sup> “Trade Policy Reform as Institutional Reform”, Dani Rodrik in “Development, Trade and the WTO—a Handbook”, The World Bank, Washington, DC, 2002.

<sup>13</sup> Dani Rodrik and others go as far as to say that the institutional setting within which trade policy operates is *more important* for economic performance than the levels of trade barriers themselves. See e.g. “Institutions for High Quality Growth—What They Are and How to Acquire Them”, Dani Rodrik, Studies in Comparative International Development, 2000.

<sup>14</sup> Dollar and Kraay, 2001

<sup>15</sup> “Trade, Growth and Poverty—a Selective Survey”, A. Krueger and Berg, 2002. Other studies on the subject include: “Trade and Poverty—Is There a Connection?” A. Winters; “Trade, Growth and Disparity Among Nations”, D. Ben-David in Special Studies, WTO, 1999; and “Trade Liberalization and Poverty: a Handbook”, CEPR.

<sup>16</sup> See, for example papers from the Conference on Globalisation, Growth and (In)equality, 15-17 March 2001, Warwick, UK at <http://www.warwick.ac.uk/fac/soc/CSGR/Conf-papers.html>

includes, *inter alia*, a combination of sound macroeconomic policies, improved delivery of education and health services, appropriate social safety nets, respect for core labour standards, improved infrastructure and access to the markets particularly for population in rural areas and the effective enforcement of a regulatory framework that guarantees the proper functioning of the markets and prevents dominant business behaviour and corruption, appropriate environmental legislation.

Such wider domestic strategies, aimed at capturing the benefits of globalisation and of ensuring their fair distribution, call for external financial support focused on reform, capacity building and infrastructure. Key in this respect is the role of the Bretton Woods Institutions whose leverage is particularly high. It is therefore important for the EU to ensure effective co-ordination with these institutions, but also to ensure that their lending policies take into account the priorities agreed upon between the EU and the beneficiary countries in the Country Strategy Papers, through strengthened co-ordination between the Commission and the Member States.

#### **1.4. The need for effective market access**

Since the Uruguay Round (UR) of multilateral trade negotiations, obstacles to trade have been greatly reduced, both in industrialised and in developing countries. The UR also extended multilateral disciplines to previously excluded areas such as standards for Intellectual Property Rights (IPRs), greater discipline in support to agriculture, the abolition of Voluntary Export Restraints (VERs) and the gradual liberalisation of trade in textiles and clothing. As far as market access is concerned, average tariff rates have been significantly reduced world wide.

However, developing countries still face considerable barriers to their exports to both developed and other developing countries. Since most of the world's poor work primarily in agriculture and labour-intensive industries<sup>17</sup>, further liberalisation of international trade in these sectors remains key to poverty reduction. Yet, in high-income countries the average tariff rate on agriculture is almost double the tariff for manufactures.<sup>18</sup> And, despite significant progress since the 1980s, import tariffs in developing countries remain almost double those in industrialised nations. Since a growing share of world trade is between developing countries, important potential welfare gains can also be made by gradually reducing trade barriers in these countries as they develop their competitive advantages

Tariff peaks and tariff escalation are of special concern to developing countries, even in the presence of preferential access schemes. In spite of progress since the Uruguay Round, support to agriculture, in the form of subsidies, remains sizeable in industrialised countries and often distorts trade and may penalise developing countries<sup>19</sup>. Furthermore, non-tariff barriers, such as sanitary and phyto-sanitary standards are increasingly complex and have sometimes constrained the export potential of poor countries<sup>20</sup>. Developing countries frequently encounter problems in meeting veterinary and phyto-sanitary standards that apply to imports of agricultural and food products to the EU. The monitoring of residues and

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<sup>17</sup> Rural poverty accounts for around 63 percent of poverty worldwide, and represents between 65 and 90 percent in Sub-Saharan Africa.

<sup>18</sup> "Global Economic Prospects 2002", World Bank, Washington DC, 2002.

<sup>19</sup> Total support to agriculture (as defined by the OECD) is estimated to have reached US\$327 billion in 2000 ("Global Economic Prospects 2002", World Bank, 2002).

<sup>20</sup> Otsuki, T et al (2001) Saving two in a billion: a case study to quantify the trade effect of European food safety standards on African exports, World Bank.

pathogens which are banned or controlled in the EU is an example of one area where there are particular difficulties. The resulting problems can be a source of trade tensions and also serve to reduce export and development opportunities in the developing world. Investment is necessary in the countries concerned in order to bring their regulatory, scientific and technical infrastructure up to the required standards to meet the EU requirements in question. Solutions to sanitary and phyto-sanitary problems merit particular attention, therefore, in the EU's trade and development related assistance.

Recourse to anti-dumping measures in particular, has also increased, both in developed and developing countries<sup>21</sup>. At the 3<sup>rd</sup> Least Developed Country (LDC) Conference in Brussels in 2001, the EU committed itself not to launch anti-dumping actions against the LDCs.

The EU's Generalised System of Preferences (GSP), which is in operation since 1971, is an important element of its instruments for encouraging exports from developing countries. Since 1995 quantitative limitations were abandoned, and the whole GSP regime has been streamlined and made more efficient in December 2001<sup>22</sup>. Other EU initiatives to assist developing countries take advantage of trade opportunities include the Sustainable Trade and Innovation Centre. Yet, the concessions offered through the GSP, including the Everything But Arms (EBA) initiative for the Least Developed Countries, have not always been used to the full, and improved and more comprehensive use of the GSP/EBA facilities can substantially increase effective market access for developing countries.

### **1.5. Policy, structural and institutional constraints**

Increased market access alone and additional trade-related assistance will not automatically lead to trade expansion, growth and poverty reduction in developing countries, especially the poorest. There is a clear need to make market access more effective to help exporters' compliance with applicable regulations and to exploit market access concessions. Supply side constraints often act as obstacles to trade expansion. Important factors constraining supply response include: inappropriate macroeconomic and tax policies, weak regulatory frameworks and implementation; dependence on a small range of low value-added exports; and high transport costs, unreliable utilities, poor telecommunication and inefficient financial services.

Addressing these constraints requires strengthening institutional capacity, including the promotion of social dialogue, developing new legislation as well as significant investments. Examples of investments include laboratories to handle SPS standards, inspection facilities, offices for standardisation and registration, storage facilities, and upgrading of science and technology capacity through appropriate research programmes, as well as support for the formulation of regulatory frameworks and policies for the effective use of information and communication technologies. Support services to enterprises in the areas of payments, insurance and transport also need to be upgraded. All this requires considerable resources and forward planning. Therefore, efforts by developing countries to reform and increase their trade capacity need to be accompanied by additional external assistance from developed nations that complements increased market access opportunities. In line with the commitments made at the WSSD the EU needs to assist with enhancing the capacities of vulnerable countries to benefit from trade opportunities, notably in sectors where they have a

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<sup>21</sup> Even if anti-dumping investigations do not always lead to actual anti-dumping measures, the simple fact of launching them increases uncertainty and leads importers to look for alternative suppliers. Anti dumping measures are not applied by the Community in the agricultural sector, nor did the Community apply the general safeguard clause on agricultural products.

<sup>22</sup> Council Regulation (EC) No 2501/2001 of 10 December 2001.

comparative advantage and where there is a potential for so-called “win-win” opportunities, such as environmentally friendly products and organic food products. In relation to the problem of commodity-dependence, the EU and other participants committed themselves at the WSSD to building the capacity of these countries to diversify through, *inter alia*, financial and technical assistance and international efforts to address the instability of commodity prices and declining terms of trade. The Commission will consider how these objectives can be achieved.

## **1.6. Regional integration is a valuable strategy**

Regional Trade Agreements (RTAs) amongst developing countries or between developed and developing countries, can contribute to the participation of developing countries in the global economy and reinforce the multilateral trading system provided they are outward-oriented and lead to lower external trade barriers. *South-South integration* can enhance efficiency, increase competition between peers in development, enable economies of scale, increase attractiveness to Foreign Direct Investment (FDI) and secure greater bargaining power. Last but not least regional integration can contribute to the consolidation of peace and security. The importance of regional integration in supporting sustainable development was confirmed in the WSSD.

The power of regional integration is enhanced when co-operation goes beyond border measures and is extended to deeper integration, including the convergence of domestic policies such as investment and competition policies; regulatory convergence and/or the adoption of harmonised or common standards, including where appropriate environmental standards; the development of regional financial services and the co-ordinated provision of infrastructure such as regional telecommunications, energy and transport networks. The regional dimension can provide an incentive to put in place sound policies and institutions for example for macroeconomic stabilisation, social protection and conflict resolution that could otherwise be difficult to achieve at the national level. It is also possible to save resources when institutions and capacity building can be set up at regional level. This applies to many trade-related areas such as standards, intellectual property protection and the whole range of trade facilitation measures, including customs procedures.

For a long time the EU has advocated and supported South-South integration, in parallel to greater integration of developing countries in the multilateral trading system, as part of a development strategy to overcome the limitations of small economic size and vulnerability. Yet, it should not be overlooked that the positive effects of integration can only be realised when the overall policy framework and the governance and security situation are conducive to such integration (as is the case with trade reform in general). Therefore, given the limitations in these areas, many past initiatives have not yet fulfilled their expectations.

The EU has increasingly been involved in RTAs with developing countries. Agreements have been concluded with almost all countries of the Southern Mediterranean, South Africa, Mexico and Chile. There are many advantages to linking developing countries with a large industrial country or trade block. The strong points of such *North-South integration* include: locking-in of reforms, stable access to large markets, improved governance, facilitation of FDI flows and technology transfer. While multilateral trade liberalisation and rule making within the WTO system remains the major trade policy priority of the EU, this can be articulated with bilateral and regional agreements in order to better pursue both trade opening and development objectives. Among the conditions necessary to create such a positive articulation are: full compatibility with multilateral rules; appropriate flexibility in their design and implementation, tailored to the level of development of the parties; a high degree of regulatory convergence taking due account of legitimate objectives and the specific

situations of countries; rule making going beyond the basic multilateral rules; as well as, in most cases, effective regional integration among the EU's partners themselves.

North-South and South-South integration can be mutually reinforcing. Better access to a developed market can be an incentive for developing countries to overcome resistance to open their own markets to each other, while making them more attractive for investment flows, which can strengthen their own competitiveness. By the same token, the effective integration of the developing economies makes them a more credible partner for the developed countries.

Therefore, in its ongoing RTA initiatives (with Mediterranean countries, Mercosur, the Gulf Co-operation Council and the future Economic Partnership Agreements (EPAs) under the Cotonou Agreement) the EU promotes what can be called a *South-South-North approach* which aims to combine the strong points of North-South integration with the positive aspects of South-South integration. This approach also reduces the hub-and-spoke effect when a large trading block engages in separate agreements with a large number of countries. It must be clear, however, that this approach must maintain a high level of ambition in order to be successful, especially in terms of going beyond traditional free trade in goods.

## **2. THE MULTILATERAL TRADING SYSTEM**

### **2.1. Advantages of the rules-based multilateral trading system**

The existence of a rules-based multilateral trading system is a crucial element for developing countries' ability to participate in international trade. In the WTO trade liberalisation can be tailored to the needs and capacities of its Members, through negotiations aimed at securing an overall balance of rights and obligations. Binding rules ensuring transparency and non-discrimination underpin this balance. The rules-based system embodied in the WTO substitutes the "rule of law" for the "law of the jungle". A strong argument can be made that the principles of transparency and non-discrimination are of particular benefit to smaller nations and developing countries that historically have suffered from unilateral actions of larger trading partners. These binding rules offer shelter from pressures exerted by both domestic and foreign interest groups or monopoly rent seekers and provide international credibility that helps lock in beneficial domestic reforms.

The main benefits of WTO membership for developing countries are the fact that multilateral rules underpin and strengthen good domestic governance; the upgrading of a regulatory and institutional environment conducive to increasing Members' capacity to trade and to attract investment; improved and secure market access to major export markets; and access to a dispute settlement mechanism. In addition WTO membership represents an anchor for credible domestic trade-related policies and an incentive for an improved regulatory and institutional environment to attract private investment.

Without attempting to go into detail or to be comprehensive, the advantages of the implementation of WTO commitments can be illustrated by a few examples:

- compliance with the Sanitary and Phyto-sanitary (SPS) and Technical Barriers to Trade (TBT) Agreements can help developing countries both to obtain effective market access to countries with high standards regarding protection of human health, safety, the environment, etc., and to raise their own standards;

- better implementation of the Customs Valuation Agreement, import licensing, pre-shipment inspection, and rules of origin, improves the efficiency of customs duty collection, facilitate trade, increases transparency, and reduces the risk of corruption;
- compliance with the Trade Related Intellectual Property (TRIPs) Agreement, which is technically difficult for many developing countries due to its complexity, will, however, on a long term basis attract foreign investment and ensure transfer of technology to the benefit of domestic industrial and technical development.
- the General Agreement on Trade in Services (GATS) provides key opportunities to attract stable long term investment and to improve the related infrastructure (transport, telecommunications, financial services, tourism, environmental services), fostering long-term growth and competitiveness of the economy as a whole. The general flexibility of the GATS mechanism ('bottom-up' approach to liberalisation) is particularly adapted to developing countries' needs and they have made ample use of that flexibility (opening fewer sectors and liberalising fewer types of transactions than developed countries). The current round of negotiations is an opportunity for LDCs to take commitments in more sectors, in particular sectors related to the build-up of infrastructure, in line with the principle of progressive liberalisation upon which the GATS is based.

## **2.2. Difficulties in implementing WTO agreements**

The broadened coverage of the WTO following the Uruguay Round increased the complexity of the rules-based WTO system and requires its Members to adapt their institutional and regulatory framework. While this framework is often the same as that which is needed to ensure effective and fair governance of the domestic economy, upgrading it (or, sometimes, setting it up from scratch) still strains the capacity of most developing countries.

### *Implementation*

Not surprisingly, developing countries have faced a challenge in implementing and applying the WTO agreements. While the majority has succeeded in meeting that challenge, others - notably many least developed countries and sub-Saharan African Members of the WTO - have faced difficulties in specific areas, compounded by their inability to fully benefit from the rules-based multilateral trading system. While the problems faced by many developing countries in exploiting the new trading opportunities arise from domestic policy failures, lack of competitiveness, or infrastructural and other weaknesses, a number of developing countries have also found that key export sectors remain less than fully liberalised or that such liberalisation has taken place too slowly.

WTO disciplines, for developing and developed countries alike, mean important commitments to reform trade policies and practices (e.g. greater transparency of trade measures, introduction of disciplines on subsidies, improvement of import-licensing procedures, reform of customs valuation and trade defence instruments), as well as commitments with a real or potential impact on the domestic regulatory and business environment (notably the introduction of technical standards, sanitary and phyto-sanitary standards and intellectual property laws). The WTO agreements covering these areas often include commitments to provide assistance to developing countries in order to improve their regulatory, administrative and institutional capacity.

## *Accessions*

Some 27 countries, around half of which are developing countries (for example Cambodia, Vietnam, Samoa, Tonga, Sudan, Cape Verde, Seychelles, and Yemen), are in the process of accession to the WTO, which is a demanding and lengthy process. Applicant countries not only face the challenge of introducing legislative and regulatory changes in their foreign trade regime, but also need to mainstream trade into their national economic and development policies. In addition, applicant countries often need to improve their institutional, judicial and administrative infrastructure.

World leaders committed themselves to supporting this accession process in WSSD. For this the EU already offers assistance to acceding countries, many of which are LDCs. The EU is also very supportive for the work in the WTO to seek ways to streamline and simplify the accession process for LDCs, in line with the commitments taken at the Third UN Conference on Least Developed Countries (LDC III), held in Brussels in May 2001.

### **2.3. Integrating development into trade: the Doha Development Agenda (DDA)**

Already the General Agreement on Tariffs and Trade clearly recognised that trade rules need to be adapted to the specific situation of developing countries and this led to the inclusion of Part IV of GATT. The Marrakech Agreement establishing the WTO brought this recognition and the commitment to special and differential treatment (SDT) into the WTO. The Doha Development Agenda, however, is the most ambitious attempt to date to move the issue of development to the core of the multilateral trading system. It seeks to move the WTO away from a system where trade rules were the best that the negotiating process could produce, while developing countries were simply given more time to adapt through temporary exceptions and exemptions. Instead, the new approach agreed in the Doha Ministerial Declaration now directs negotiators to establish rules that can foster development and to come up with mechanisms that will enable developing countries to implement these rules and benefit from them and from further trade liberalisation. The Doha Declaration on the TRIPs Agreement and Public Health, adopted by the Doha Ministerial Conference at the initiative of a number of developing countries is in itself evidence of this, as well as of the increased willingness of WTO Members to go in this direction and of the effectiveness of the WTO negotiating process to this end.

In this context the Commission pursues an approach in the WTO which applies maximum possible flexibility vis-à-vis the developing countries, in order to make the outcome of the negotiations and the work programme of the DDA responsive to their individual development constraints. To give but one example, in its recent submission on WTO trade facilitation (“Improvements to GATT Article VIII on Fees and Formalities Connected with Importation and exportation”), the Commission has proposed that individual transitional periods would be established for each member seeking more time, in conjunction with a specific technical assistance programme that would be worked out and agreed with the country in question. This option would facilitate developing countries’ active participation in the negotiations, the subsequent implementation of the agreements reached and the realisation of the benefits derived. At the same time it would also support the co-ordinated and targeted use of donor funding for trade related assistance.

More generally, the Doha Ministerial Declaration confirms, in paragraph 2, WTO Members’ overall commitment “to continue to make positive efforts designed to ensure that developing countries, and especially the least-developed among them, secure a share in the growth of world trade commensurate with the needs of their economic development”, and continues to



confirm that “in this context, enhanced market access, balanced rules, and well targeted and sustained technical assistance and capacity-building programmes have important roles to play”.

### *Improving market access*

In agriculture, an area of particular interest to developing countries, members have declared that “Building on the work carried out to date and without prejudging the outcome of the negotiations we commit ourselves to comprehensive negotiations aimed at: substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support”. As regards market access for non-agricultural products, notably of interest to developing countries producing labour-intensive manufactures, the Doha Declaration foresees “negotiations which shall aim, by modalities to be agreed, to reduce or as appropriate eliminate tariffs, including the reduction or elimination of tariff peaks, high tariffs, and tariff escalation, as well as non-tariff barriers, in particular on products of export interest to developing countries”.

However, while improving market access to industrialised countries is a necessary element of any final package, it would not be enough. Developing countries can achieve very sizeable welfare gains through lowering trade barriers amongst themselves, and stimulating regional trade. In addition, focusing the question of market access exclusively on a North-South basis ignores the reality of the competitive situation of developing countries at different stages of development. Thus, a satisfactory outcome of DDA negotiations on market access will need substantial contributions from all participants, developed and developing.

Finally, aside from the question of market access in the strict sense, the European Union will offer better *effective* access to its market for developing countries’ products through better and more focussed technical assistance to help developing countries meet the EU’s regulations and standards (for example in areas of sanitary and phyto-sanitary standards).

### *Towards more balanced trade rules*

In the WTO, “rules” traditionally indicate those Agreements that govern Members’ direct actions concerning trade flows. In this respect, the DDA aims at the clarification and improvement of existing rules, such as those on anti-dumping and subsidies. Negotiators are directed to do this “while preserving the basic concepts, principles and effectiveness ... and taking into account the needs of developing and least developed participants.”<sup>23</sup>

Two areas deserve particular mention, because of their potential impact on developing countries. The first is Regional Trade Agreements, where the EU’s objective is to clarify that, to be WTO-compatible, RTAs must achieve a high degree of economic integration among parties to an RTA and the establishment of an open trade regime, but must contain sufficient flexibility to allow effective South-South, North-South and South-South-North integration. Secondly, the trade facilitation cluster, mainly centred on customs reform, is liable to have a very substantial impact on developing countries’ ability to raise revenue through more effective duty collection and increased trade volumes, as well as to fight corruption and inefficiency, through the introduction of modern and more transparent administrative practices.

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<sup>23</sup> See e.g. paragraph 28 of the Doha Declaration.

“Balanced rules” in the DDA, however, also means those (existing and future) agreements that underpin Members’ ability to regulate effectively economic activity on their territory while maintaining open and transparent trade and investment regimes, and while ensuring the protection of important public interests. Among the DDA issues that fall in this category and that are important for developing countries are: the debate on the TRIPs Agreement and public health, where the Doha Declaration shows that the TRIPs Agreement contains all necessary elements to ensure an adequate balance between public interests and intellectual property rights; the negotiations to ensure a clear and mutually reinforcing relationship between trade rules and Multilateral Environmental Agreements; the negotiation of an investment framework capable of encouraging greater FDI flows; the negotiation of an agreement on competition, underpinning domestic competition laws and policies as an effective tool for the government of economic activity; and greater transparency in government procurement ensuring best value for money in government purchases, reducing expenditures and fighting corruption.

One of the important issues that the DDA is addressing is the “relationship between trade and transfer of technology and any possible recommendations on steps that might be taken within the mandate of the WTO to increase flows of technology to developing countries”, and Ministers in Doha set up a Working Group to this effect. This process will be relevant to WTO rule-making in several areas, as it should encompass the whole range of channels through which technology transfers to developing countries may occur: investment, trade in services, trade in goods, licensing of technology, government procurement, development assistance, multilateral environmental agreements.

All this pre-supposes a considerable effort from WTO Members, and from developing countries in particular, even while taking into account suitable provisions for special and differential treatment. Developing countries will have to upgrade and modernise their domestic regulatory and administrative framework, not only to comply with WTO obligations but, first and foremost, to benefit from greater economic efficiency and increased trade and investment opportunities that the effective implementation of these rules can bring about. This, in turn, will require considerable efforts from the developing countries themselves in terms of creation of institutional structures and policy reform. Donors and multilateral agencies will support this through significant assistance for capacity building. However, even before this build-up of “capacity to trade” is tackled, developing WTO Members need of assistance to be able to participate effectively in the review of existing rules and in the negotiation of new ones.

### **3. INTEGRATING TRADE INTO DEVELOPMENT STRATEGIES**

It is essential to integrate trade into development strategies in a way that contributes to the fundamental objectives of poverty reduction and sustainable development. This calls for an approach that brings trade matters into the dialogue on Poverty Reduction Strategy Papers (PRSPs) or other national development strategies, which should fully exploit the linkages between trade and all other areas important for sustainable development. For EU co-operation this must be reflected in the programming process. It is also important to ensure complementarity and co-ordination between the programmes of bilateral donors and international agencies. Moreover, attention must be paid to the coherence of different EU policies with an external dimension.

Trade-related assistance is a major theme of the Doha declaration. Strong commitments to better and more assistance were made. These commitments were later confirmed at the Conference on Financing for Development in Monterrey (March 2002) and in the plan of implementation agreed in WSSD (September 2002). The EU already dedicates considerable resources to trade-related assistance in developing countries (see annex 1) and is committed to continue doing so in close co-ordination with other bilateral and multilateral donors.

The EU's trade-related assistance will focus on enhancing effective participation in the multilateral trading system, and the policy and institutional reforms that are required as a result.

In addition, trade capacity will be improved through other trade-related development assistance including:

- promotion of a sound macroeconomic and tax policy framework;
- support for restructuring and greater competitiveness of the production system; and
- support for regional integration and co-operation.

Expectations as regards trade-related assistance are high. It is important, however, to be realistic and to acknowledge that improvements in trading capacity, domestic infrastructure and institutions for trade take time to build. The experience of transition economies to modernise their institutions and economies shows this clearly. Extensive support, over long periods of time, is needed for the development of trading capacity. It is clear that external assistance will only be successful if it is complemented by the country's own efforts to undertake adequate policy reforms to bring about a favourable environment for investment, trade and growth, and if it is well targeted, well co-ordinated, and integrated into these domestic policies.

#### **3.1. Trade reform in poverty reduction strategies**

Trade policy must be part of a country's own sustainable development strategy, and should accompany macroeconomic and institutional reforms that foster equitable growth and promote human development, as well as ensuring the proper management of natural resources and the protection of the environment. This is a key requirement if developing countries are to reap the benefits of trade expansion. It is also vital to ensure that trade related assistance is

effective in raising trade capacity in a way that promotes sustainable development and gender equality.

The nature and sequencing of trade policy reforms should reflect the specific conditions in each country, and should ideally result from a national dialogue involving government, the private sector and labour and civil society representatives.

Country-owned Poverty Reduction Strategy Papers (PRSPs), or the equivalent, are the natural vehicles for mainstreaming trade into comprehensive development frameworks, that are the basis for national public policy and external assistance. Overall, however, the first generation of PRSPs has failed to give trade issues the prominence they deserve. This reflects the fact that the links between trade and poverty have not been fully acknowledged and taken into account, while at the same time trade policy reforms have often been limited to simple border measures (tariff and non-tariff barrier reductions). For the future this should be corrected and PRSPs should show how concrete trade reforms will contribute to growth, poverty reduction and gender equality. At the WSSD in Johannesburg it was agreed that PRSPs should also operate as the vehicle for developing national sustainable development strategies.

On their side, donors should ensure that support for trade policy reforms features prominently in their development assistance strategies. The Commission Communication of April 2000 on the Community's Development Policy and the Joint Council–Commission statement of November 2000 identified trade as one of six priority areas for development policy. Similar policy developments have occurred in Member States' own strategies, as indeed they have in most other developed countries and in multilateral agencies. What is now needed is a more concrete follow-up of this priority. Thus, the Commission intends to deepen the policy dialogue on trade issues with beneficiary countries and regional organisations. As far as EU co-operation is concerned, Country Strategy Papers (CSPs) and Regional Strategy Papers (RSPs) are the vehicles to translate policy dialogue into concrete assistance programmes. Trade issues and their linkages with other policies important for sustainable development need to be addressed at each stage of CSP and RSP preparation—policy dialogue, analysis of other donors' activities and definition of EC intervention. However, reflecting the general lack of visibility of trade aspects in PRSPs, many of the CSPs approved so far do not put much emphasis on trade-related assistance. On the other hand, trade-related assistance in the broad sense features prominently in many RSPs, with 40 to 50 percent of regional funds devoted to this area in some regions.

### **3.2. Complementarity, coherence, and co-ordination with other donors**

Many initiatives for integrating trade into development policies and plans are being pursued at the international level, notably through the Integrated Framework for Least Developed Countries (IF) and the Joint Integrated Technical Assistance Programme (JITAP). International agencies such as the World Bank, IMF, UNCTAD, UNDP, UNEP, ITC, WTO, WCO, WIPO, ILO, and regional banks like the Inter-American Development Bank and the African Development Bank, are also increasingly stressing the importance of trade-related assistance and capacity building. Furthermore, many bilateral donors, including some EU Member States, are very active in the area of trade and development. In view of this the EU will endeavour to ensure complementarity between its own programmes and those of international and bilateral donors. The OECD Development Assistance Committee (DAC) can play an important role as a focus for exchange of information and joint analysis. The DAC's efforts to establish informal but regular exchanges with multilateral agencies are essential to this role and the EU should encourage and support further efforts in this direction.

Further co-operation between relevant international organisations, such as the joint UNEP/UNCTAD capacity building task force on trade, environment and development, will also be encouraged. In general it is important to have a more holistic approach between the different agencies and initiatives so as to ensure greater impact on sustainable development.

Ownership of the trade reform agenda is key. The Integrated Framework is a good example of this approach as it encourages the beneficiary LDCs not only to integrate the findings of the Diagnostic Trade Integration Studies into their Poverty Reduction Strategy Papers, but also insists that the LDCs demonstrate their commitment to the trade policy reform agenda through the creation of national co-ordination structures (see annex 2).

Within the EU the principles of co-ordination agreed in the joint Council-Commission statement on development policy of November 2000 should fully apply. For this purpose, the policy framework proposed in the present Communication could serve as a basis for more co-ordinated action in the area of trade and development.

Greater policy coherence between different EU policies with an external dimension is necessary. The recent Commission communication entitled "Towards a Global Partnership for Sustainable Development"<sup>24</sup> stresses the need to improve the coherence of EU policies. To that end the EU should continue the process of adapting key policies, including the Common Agricultural Policy, the Common Fisheries Policy, and EU policies on trade, energy, transport and industry to the internal and external objectives of sustainable development. At the World Summit on Sustainable Development, developing countries put considerable emphasis on these reform issues, further underlining the need to make early and significant progress on the WTO track. The recent Commission proposal for the Mid Term Review of the CAP, if adopted, would present a concrete example of steps taken to improve coherence. The Commission's recent decision to carry out sustainability impact assessments of each major policy initiative in order to assess their social, economic and environmental effects in advance should also help the EU to be better equipped for this task.

Particular attention will be paid to the impact of EU enlargement on trade with developing countries. Although the overall impact is expected to be positive<sup>25</sup>, an in-depth analysis is necessary.

The EU reaffirms the commitments made at the WTO Singapore Ministerial Conference with regard to internationally recognised core labour standards, and will continue to support the work under way in the International Labour Organisation (ILO) on the social dimension of globalisation. The EU also intends to continue work on fair trade and trade in environmentally friendly goods and organic products, particularly from developing countries as we committed to do in the plan of implementation in WSSD.

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<sup>24</sup> COM (2002) 82 final, p. 15.

<sup>25</sup> Several arguments point in that direction: enlargement will increase further the EU market with the addition of another 150 million consumers, which should boost import demand; implementation of a single set of EU-wide trade rules, standards and procedures by the candidate countries should facilitate trade with developing countries; and on average adoption of the Common Customs Tariff will lead to lower external tariffs in the candidate countries, improving market access.

### 3.3. Assistance for effective participation in the multilateral trading system

EU assistance will focus mainly on three areas:

(i) assistance for WTO accession and multilateral trade negotiations, mainly through training programmes and contributions to meet logistical costs;

(ii) support for the implementation of existing and future WTO agreements implying a significant financial effort and/or which require the development of specific regulatory and institutional frameworks;

(iii) support for policy reforms and investments necessary to enhance both economic efficiency and greater participation in the multilateral trading system. While the areas that need to be addressed must necessarily be determined on the basis of the specific situation of each country or region, the following examples are typical of what needs to be done in many developing countries:

- Reform of the administration of Customs and other trade facilitation measures: simplification and harmonisation of import and export documentation based on international standards, including use of simplified declarations; improvement of customs procedures, through methods such as risk assessment, simplified procedures for entry and release of goods, granting of authorised trader status, using electronic data interchange (EDI) and automated systems; improvement of transparency and appeal procedures against customs decisions and rulings; regular consultation with the trade community on import and export regulations and procedures.
- Standards and Conformity Assessment: identification, in conjunction with the business community and all other stakeholders, of priority sectors for increasing regulatory convergence to international standards, in order to reduce barriers and improve access to markets, while taking due account of legitimate objectives; intensification of the use of international standards, with active participation in international standards-setting activities; strengthening of standardisation and conformity assessment institutions with the aim to develop common and compatible mechanisms at the regional level; implementation of the WTO Agreement on Technical Barriers to Trade (TBT).
- Services: supporting the establishment of a domestic pro-competitive regulatory framework, and the build-up of regulatory capacity necessary to undertake and benefit from liberalisation of trade in services, in particular for services such as financial or telecom services, or transport and environmental services; support for measures designed to strengthen the domestic services capacity to increase efficiency and competitiveness of the services sector.
- Investment: identification of administrative means to facilitate investment flows; support for investment promotion activities, including in relation to research, and technology transfer, as well as transparent, stable, open and non-discriminatory rules for investors.
- Intellectual Property Rights: ensuring that adequate TRIPs compatible legislation is implemented and enforced in conformity with high international standards; ensuring that national registration authorities and courts are properly equipped and staffed with trained officials; accession to the most important international IP treaties; cooperation in the fight against piracy and counterfeiting.

- Competition policy: progressive development of competition law and policy, with an adequate enforcement capacity (at the national or regional level); competition advocacy towards the business community and the public at large; integration of competition policy in the domestic policy toolbox, to help avoid abuses of economic power by both domestic and foreign firms.
- Legislation for adequate labour standards, including effective compliance with the core labour standards set out in the ILO 1998 Declaration<sup>26</sup>, and to be addressed in close co-operation with ILO.
- Environment standards: development of appropriate and effective environmental legislation to address local, regional and global environmental problems.

### **3.4. Other trade-related development assistance**

#### *Macroeconomic and tax policies*

At a more general level, support to enhance trade capacity should also aim for sound macroeconomic and tax policies, to achieve a policy mix that is conducive to improved trading conditions and economic and financial stability. A delicate question, which could have a significant impact on policy reforms in developing countries, is that trade liberalisation in the form of lowering tariffs generally leads to a reduction in government revenue. For many developing countries the share of government revenue derived from trade-related taxation can be quite high. However, the fear of loss of government revenue is sometimes exaggerated. If lower tariffs are combined with increased efficiency in the customs services and reduction in politically motivated exemptions, the fall in revenue may be offset or limited. In the case of developing countries where customs administration and enforcement is particularly weak, and where smuggling and corruption are widespread, customs reform would in fact increase revenue even as tariffs fall. Moreover, to the extent that tariffs were in place for revenue purposes, tax restructuring is generally desirable, as tariffs are not the best or fairest form of taxation. The fiscal adjustment process should be assessed within the overall macroeconomic context.

The Commission has experience with assisting the fiscal adjustment process in the form of advisory services and training, but also in the form of temporary budget support to contribute to covering transitional shortfalls (for example in West Africa and in Eastern and Southern Africa). In order to facilitate the adjustment process resulting from multilateral and regional trade agreements, the Commission intends to continue and extend this kind of support.

#### *Supporting the repositioning of the business sector*

The benefits resulting from trade opportunities arising from trade and investment liberalisation (through multilateral or bilateral initiatives or regional integration) can only be captured by moving from less efficient to more efficient productive activities. Adjustment capacity not only depends on the private sector in the strict sense, but also very much on the overall investment climate. This comprises a range of flanking elements such as human capital development, reliability of transport and communication infrastructure, effectiveness of public utilities, efficiency of financial services and trade-related institutions and good governance.

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<sup>26</sup> ILO Declaration on Fundamental Principles and Rights at Work (86<sup>th</sup> Session, Geneva, June 1998).

In order to support the repositioning process and to increase the competitiveness of the private sector in developing countries a variety of private sector facilities (for example EBAS, PROINVEST, ALINVEST) have been set up both at the national and regional level. In addition, strengthening support services and improving infrastructure has also been one of the core areas of EU support. In view of the DDA and regional integration initiatives, assistance to enhance supply response will be further increased. An important example for the ACP group is the newly created “investment facility” under the 9<sup>th</sup> EDF.

CSPs and RSPs will seek to fully exploit the synergies between trade related assistance as defined above and support to the areas that typically affect the supply response: macroeconomic and fiscal policies, rural development and agricultural research, transport and telecommunications infrastructure and the effectiveness of the financial sector. This is consistent with the priority areas of EC development aid identified in the joint Council-Commission Statement of November 2000.<sup>27</sup> The programme of action for the mainstreaming of gender equality in development co-operation should also be taken into account.

Last but not least, assistance for the implementation of core labour standards will be part of the supply-side support. There is mounting evidence of a positive correlation between adherence to core labour standards and productivity gains in developing countries, and the EU has made this kind of assistance a key element of its strategy to improve social governance in the context of globalisation<sup>28</sup>. This important element of the international agenda will be addressed in close co-ordination with the ILO.

#### *Supporting regional co-operation and integration*

Whenever appropriate, the activities to be implemented as part of EC trade related assistance will be executed at the regional level. These activities will complement and reinforce those actions supported at the national level. There are clear advantages in intervening at the regional level, among which are the support for deepening of the regional integration processes—an EU priority<sup>29</sup>—as well as economies of scale and scope.

Regional integration is supported both as a component of development strategy and in relation to the EU’s own trade regime towards groupings of developing countries. This is the South-South-North approach introduced in section 1.6. On the basis of this approach, the EU is negotiating agreements with regional groupings: for example, with the Mercosur group of countries, with the explicit aim of assisting Latin American regional integration; and in the Mediterranean, where the MED Market regional programme (2001-2003) is a good example of efforts to deepen the process of regional integration in the area. And in South-East Asia, the EU has long been a supporter of ASEAN integration.

But this approach applies in particular to the Economic Partnership Agreements (EPAs) between the ACP and the EU for which negotiations start in September 2002.

EPAs will be based on four fundamental principles:

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<sup>27</sup> The joint Council-Commission statement identifies 6 priority areas for EC development aid: the links between trade and development; regional integration and co-operation; macroeconomic reform and the promotion of equitable access to social services; transport infrastructure and management; food security and sustainable rural development; and institutional capacity-building.

<sup>28</sup> Commission Communication on “Promoting core labour standards and improving social governance in the context of globalisation”, COM (2001) 416 final, of 18 July 2001.

<sup>29</sup> See for example the commitment at the 2002 Madrid Summit to support further regional integration in the Andean Community and Central America.



**Partnership.** EPAs are partnership agreements, implying rights and obligations for both sides. The respect of the obligations by each side is essential for the achievement of the entire undertaking. In particular, while the EU will be prepared to further open up its market for ACP products, to tackle all other trade barriers, and give trade related assistance, the ACP States must be prepared to open their market and to implement appropriate policies to strengthen their supply capacity and reduce transaction costs.

**Regional integration.** Regional integration is a forceful means to foster integration into the world economy. The recent progress made in regional integration within the ACP reflects the political decision of the ACP States equally to base their integration into the world economy on regional economic integration. EPAs will therefore strengthen regional integration initiatives existing in the ACP.

**Flexibility.** EPAs are above all instruments for development. They will therefore be designed with all the flexibility that is required to take account of the economic, social and environmental constraints of the ACP countries concerned as well as of their capacity to adapt to the new trading environment. On the other hand, they must be integrated into the development policy of the ACP countries and into the support strategies of the EU.

**Link to WTO.** EPAs are not an end in themselves, but intended to act as a stepping stone facilitating the integration of the ACP countries into the world economy. They will therefore build on the rules of the WTO, taking account of the results of the Doha Development Agenda. However, in some respects they will go beyond the WTO. They will define, within the framework of those rules, more specific and more operational, bilateral trade relations intended to alleviate practical barriers to trade between the ACP and the EU and to establish closer integration between both sides' economies.

#### **4. A PROGRAMME OF ACTION TO IMPROVE DELIVERY OF ASSISTANCE**

##### *Objectives and approach*

Section 3 of this Communication has outlined the key areas where EU trade-related assistance needs to be focused. This section spells out a programme of action which outlines practical ways for the Commission to improve the delivery of trade related assistance, both through its own activity and in co-ordination with Member States and/or with other bilateral donors and multilateral agencies. Some EU political initiatives to promote actions by the international community as a whole are identified.

As mentioned earlier, trade-related programmes and activities are already part of CSPs and RSPs. In those countries or regions in which trade has not received appropriate attention, the mid-term review of the strategies, which will be launched starting in 2003 will seek to ensure that trade issues are properly addressed and adequately funded. In the meantime, the Commission will identify additional measures to complement trade capacity building activities already under way, so as to enable if needed a rapid scaling up of assistance in this area following the CSPs and RSPs mid-term reviews.

It should be stressed that the recommended programme of action can only succeed with full commitment and ownership of the process of trade reform by the developing countries themselves. Developing countries should create adequate national structures for the definition of trade policy and for the integration of trade into their development strategies and programmes. As policy coherence is of great importance for any country that wants to benefit

from trade as part of its development strategy, the EU will promote a comprehensive approach to the trade reform agenda, which will be integrated with appropriate policies for poverty reduction and sustainable development, including adequate environmental and social legislation, good governance, and supply side development.

Therefore, the Commission intends to take or press for the following actions:

*Intensify dialogue with partner countries*

- In general terms, greater emphasis will be put on trade issues in the EU's policy dialogue with developing countries, in particular with a view to better integrate trade policy issues in PRSPs or similar mechanisms. The Commission will launch discussions with the authorities in recipient countries in order to raise awareness about trade issues. Joint action and complementarity between the Commission and EU Member States is essential in this context.
- Ensuring that funding for this new priority, trade-related assistance, is adjusted as necessary, particularly for LDCs. This issue must be addressed by both sides in the dialogue relating to the mid term review of the CSP/RSP, which will be launched starting in 2003. This exercise will assess and address the integration of trade into the national development policies of the partner countries, and will be based on the specific needs of each country, taking into account the principle of complementarity with the action of other bilateral or multilateral donors. It should cover a broad concept of trade-related assistance, comprising not only technical assistance, but also training, capacity building, institutional and policy support, support for budgetary and tax reform, assistance for the repositioning of the private sector and improvements in support services. In its annual report on EU development assistance, the Commission will report on the total amounts allocated for trade related assistance. In the short-term the Commission will, where appropriate, make use of the flexibility for non-focal areas in existing RSPs/CSPs.
- Reinforce where appropriate and in consultation with the partner country/region, the trade component in the programming exercise for EU development assistance, with the elements of (i) assistance for effective participation in the multilateral trading system; (ii) supporting institutional and policy reforms; (iii) supporting the restructuring and competitiveness of production and (iv) supporting regional co-operation and integration.

*Enhance the effectiveness of EU support*

- The recently created inter DG Task Force for Trade and Development, which was set up to help improve internal Commission coherence will guide the different Commission services involved, including the Delegations, in their task to mainstream trade in the CSPs and RSPs, provide know-how and input for the identification and implementation of programmes and projects, and liaise with those in charge of trade negotiations and of monitoring the implementation of trade agreements.
- Pay particular attention to least-developed countries (LDCs) and other low-income countries in the allocation of resources for trade-related assistance, while respecting current rules applying to the allocation of development aid.
- *Examine the scope for funding horizontal trade-related assistance initiatives that benefit all developing countries, especially in collaboration with multilateral agencies.* At present, practically all EU development assistance is provided on a country/region basis. However,

in this field there is an increasing need to support multilateral initiatives (such as those by the World Bank, the WTO, UNCTAD and the joint UNEP/UNCTAD capacity-building task force on trade, environment and development) and some EU ones (especially in the field of training of administrators) without limitation to specific countries or regions.

- Increase the EU's ability to design and deliver training programmes for developing countries' trade negotiators and administrators. The results of the first training programme for negotiators and administrators from Asian, Latin American and Mediterranean countries will be assessed and, further activities of this kind will be undertaken, including with the ACP countries. An important component of these programmes will be the involvement of highly qualified and internationally recognised European higher learning institutions, chosen on a competitive basis.
- Use the results of these programmes to establish networks between European higher learning institutions and their counterparts in developing countries and help these countries to set up their own training capacity in trade and trade-related matters, including on a regional basis.
- Where developing countries wish to do so, technical assistance for sustainability impact assessments will be provided, to consider the trade, environment and development linkages as trade is liberalised, in line with the EU's commitment in the WSSD.
- Reinforce current efforts to improve developing countries' capacity in the sanitary and phyto-sanitary field, as compliance with sanitary and phyto-sanitary standards has emerged as one of the major constraints on the increase of exports by developing countries to industrialised markets. In particular, pursue the development of a programme of action in the sanitary and phyto-sanitary field, including a standard approach to country assessment, a menu of possible technical assistance measures for common problems, including relevant training programmes, and the identification of sources of additional funding and relevant expertise.

#### *Contribute to international effectiveness and co-ordination*

- Ensure that policy coherence between the EU's multilateral and bilateral/regional trade agendas produces adequate synergies in the provision of trade related assistance. This is essential to the EU's relations with all developing country partners, but needs even greater attention in relation to the more vulnerable among them, such as many ACP countries.
- Review existing mechanisms for EU Member States co-ordination and introduce the necessary changes. Promote greater exchange of "best practices" between the Commission and Member States and between Member States themselves. Promote similar exchanges with other donors (including in the OECD DAC).
- Engage in more efficient co-operation with organisations like WHO, UNCTAD, WTO, ITC, UNDP, UNEP, WB, IMF, UNIDO, WIPO and ILO possessing specialised expertise in trade and trade-related matters. Assess the strengths of the different international institutions involved in trade matters and establish how co-operation with them can best take place. Where appropriate, this could include channelling assistance via organisations that have a comparative advantage, so as to increase effectiveness and efficiency and reduce duplication.

- Continue to advocate the Integrated Framework (IF) as a sound vehicle for mainstreaming trade in the development policies of LDCs. At the same time, work towards extending the principles and methodology of the IF to other developing countries, in particular and as a priority other low income countries with similar needs and constraints as the LDCs. Support the IF Trust Fund, where appropriate from the development co-operation resources.
- Support for the WTO Secretariat in its role as provider of technical assistance through its WTO Technical Assistance Plans. These Plans need to ensure that all developing countries are involved. They should be “needs-driven” rather than “demand driven”. They should cover all negotiation and implementation subjects and focus more on directly relevant training and less on general seminars and information sessions. The Commission intends to continue to contribute to the DDA Global Trust Fund, which is the funding source for the WTO TA Plan.
- Continue to participate in the governing bodies of the IF (the Inter Agency Working Group and Steering Committee). Two priorities need to be addressed: (a) reinforced participation of bilateral donors in the Diagnostic Trade Integration Studies; (b) further developing the role of “facilitators”: i.e. donors who would assist a country in the setting up of an adequate national capacity to mainstream trade in development policy. Moreover, the Commission’s own role, as well as that of EU Member States, as “facilitators” should be extended.
- Encourage Regional Development Banks (such as the African Development Bank, the Asian Development Bank and the Interamerican Development Bank) to devote additional resources to the trade capacity building agenda.

In the light of these specific commitments, the Commission intends to prepare an overall review of the EU’s trade-related assistance before the end of the year 2005.

## ANNEX 1 - OVERVIEW OF EU TRADE-RELATED ASSISTANCE

It is not straightforward to determine the amount of EU trade-related assistance. There are many projects/programmes that deal explicitly with technical assistance and capacity building for trade policy. But often activities in this area are a component of a sectoral programme, such as transport or agriculture. It is also common for capacity building and institutional support to be general and open-ended in order to fit the specific needs of the stakeholders. The detailed activities, which can include trade-related ones may only be decided during implementation. Therefore, for such projects, it is only at the stage of ex-post evaluation that the share of trade-related activities can be determined.

A first exercise to assess the amount of EU trade-related assistance carried out during the last five years resulted in a total project value of around €640 million for 117 operations. About 30 per cent can be considered as technical assistance and capacity building in the strict sense. Most of the rest is trade development and support for the private sector. In terms of distribution over regions, 61 per cent went to the ACP group and 14 and 12 per cent respectively to Latin America and the Mediterranean. The remaining part was allocated to Asia and the former Soviet Union (9 and 4 per cent).

Overall, 60 per cent of the projects are regional and 40 per cent are national. The trade-related programmes are often linked to new trade agreements with the EU (e.g. in the ACP, Latin America and the Mediterranean). Some programmes in Latin America and Asia have a significant trade-related component supporting closer relations between the region and the EU, through encouraging joint ventures and investment.

Some of the recent trade-related assistance programmes are:

- €10 million programme to support ACP countries with implementation of the Uruguay Round agreements, accession to the WTO and participation in DDA.
- €20 million programme to prepare ACP countries and regions for the negotiations of Economic Partnership Agreements.
- €45 million programme for capacity building to improve sanitary conditions in fisheries exports.
- €29 million pesticides initiative programme to improve the competitiveness of the ACP horticultural sector.
- €60 million trade enhancement programme for Egypt.
- €6 million trade development programme for Pakistan.
- €2 million WTO related capacity building programme in the Philippines.
- €8 million programme for facilitating the FTA with Mexico.
- €8 million programme for helping the Customs Union in Central America.
- €4 million programme for Mercosur norms and technical standards.
- €5 million programme for co-operation on customs matters with Mercosur.
- €1.2 million for UNEP/UNCTAD capacity building task-force on trade, environment and development

A number of new initiatives and activities are foreseen during 2002 directly as a result of the Doha Development Agenda. These include:

- an additional contribution to the Integrated Framework Trust Fund (€750,000)
- a contribution to the Global Trust Fund (€700,000)
- preparation of an intensive training course for developing country negotiators (€2.4 million).

## **ANNEX 2 - THE INTEGRATED FRAMEWORK FOR LDCS**

The Integrated Framework is a joint undertaking of six international agencies (WTO, World Bank, IMF, UNCTAD, UNDP, and ITC) and was established in 1996 with the objective to assist LDCs to mainstream trade into their development policies. This is done on the basis of a comprehensive analyses of the trade potential through a Diagnostic Trade Integration Study (DTIS), resulting in the identification of trade-related technical assistance and capacity building needs, which would help alleviate the weaknesses of their production and marketing systems, and their institutional, regulatory, and judicial capacity to take part in the international trading system.

The follow-up on the early studies was, however, disappointing and the IF process was considered not to work satisfactorily. Therefore, in early 2001, the collaborating agencies decided to revamp the initiative. Under the leadership of the World Bank a methodology and model terms of reference were defined for a new series of DTISs. Three pilot studies (Cambodia, Mauritania, and Madagascar) were finalised by November 2001. In Cambodia and Mauritania the studies were followed-up with in-country workshops.

The next step is to identify the funding for activities recommended in the DTIS. This is ideally done through the Consultative Group mechanism, under World Bank auspices, or the Round Table mechanism, under the auspices of the UNDP. In cases where no Consultative Group/Round Table is foreseen within a reasonable short time after the in-country workshop, and in order not to lose momentum, the country, assisted by the donor country "Facilitator", will organise a special meeting with all donors, to ensure funding. In these cases the country commits itself to integrating the findings of the DTIS in its Poverty Reduction Strategy Paper (PRSP), so as to ensure that the mainstreaming objective is respected.

Diagnostic studies will be undertaken over the next 15 months in 11 more countries: Malawi, Senegal, Lesotho, Yemen, Ethiopia, Nepal, Eritrea, Djibouti, Burundi, Guinea, and Mali.

Diagnostic studies are funded from the IF Trust Fund, which is managed by the UNDP. Bilateral donors were asked around the middle of 2001 to pledge contributions to the IF Trust Fund. The European Commission provided an amount of €200,000 for the year 2001. The Commission intends to contribute €750,000 for the year 2002, specifically for those LDCs that are part of the ACP group. The total Integrated Framework Trust Fund amounts to over US\$10 million, half of which is pledged by the European Union (Member States plus Commission).

In view of its solid methodology and the ownership by the LDCs the IF constitutes an important tool to mainstream trade into the national economic and development policies of the LDCs.