

A different stance on trade will hit the poor hardest

By Dirk Willem te Velde - Today, 05:25 CET

The EU's creeping protectionism in trade policy will hamper global development.

Reformulating a trade strategy in times of economic and financial crises always carries a risk: protectionist voices are better able to shout down those who seek a more coherent approach towards policymaking. Unfortunately, the recent European Commission communication 'Trade, growth and development: tailoring trade and investment policy for those countries most in need' suggests that the European Union is choosing a more protectionist stance over trade policy that will damage developing and European countries.

It does not need to be like this. There is much to celebrate in the document; it identifies a number of global challenges in what it calls a 'reshuffle'; it recognises important dilemmas, such as whether and how to differentiate among countries in a heterogeneous world and how to use trade and investment policy to address climate change and other environmental problems; and formulates good solutions such as targeted 'aid for trade'. It is a pity that much of the substance was lost in the conclusions on this topic issued two months later by member states.

Research that we have done at the Overseas Development Institute (ODI) in London makes clear that there are strong reasons to fear that the EU will retreat into protectionism. For example, the first reform of the EU's generalised system of preferences (GSP) in 30 years, to be implemented in 2014, will see richer developing countries, such as India and Vietnam, lose trade concessions of up to €257 million each year.

The EU claims that this will be to the benefit of the poorest developing countries, but ODI research suggests that richer nations such as Switzerland and the US will reap the rewards, while EU consumers will lose out and the poorest countries will hardly gain anything.

At the same time, developing countries including Kenya, Ghana, Botswana, Namibia and Swaziland could lose €50m each year to the EU, if they do not sign up to the EU's economic partnership agreements (EPA). This would increase to €76m if Cameroon and Côte d'Ivoire fail to ratify their EPAs. The planned date for the implementation of this regulation is 2014, although last month the European Parliament voted to extend the deadline to 2016.

Worryingly, such threats are not confined to tariffs. The Commission has issued a proposal to close government procurement markets to firms from countries that exclude European firms. Furthermore, significant reform of the Common Agricultural Policy (CAP) that could lead to a more efficient way in promoting environmentally friendly food security is off the table, and Poland argued only this month for the re-introduction of export subsidies for dairy products.

Moreover, the EU has a defensive position on the role of trade in tackling global challenges such as climate change and food security, even threatening to impose trade barriers for green purposes. But the opposite needs to occur: free trade can help countries to reap the benefits of

needs to occur. Free trade can help countries to reap the benefits of economies of scale in green industries and can provide access to (virtual) water, land, energy and food, as argued in this year's Commission-funded European Report on Development.

The EU needs to ensure that the next decade of trade policy is fit to confront 21st-century trade issues, rather than protecting policies – such as the CAP – that can work counter to growth and development, both in developing countries and the EU.

A moment of reckoning will arrive in 2015 when the Commission needs to report on progress. The interested observer may wish to build a checklist of concerns including whether the EU has been able to fight protectionism at home, whether it has developed an overarching strategy on differentiation, has succeeded in making trade and related policies part of coherent development policy, and whether the planned approach on EPAs, GSP reform and the CAP has not soured relationships with a range of developing countries. At this moment in time the signs are not good.

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