

ESASCD 2006/2007
Master in Cooperation and International Economic
Integration

Trade Negotiations Module
Trade Negotiations and Development

Aid for Trade ?

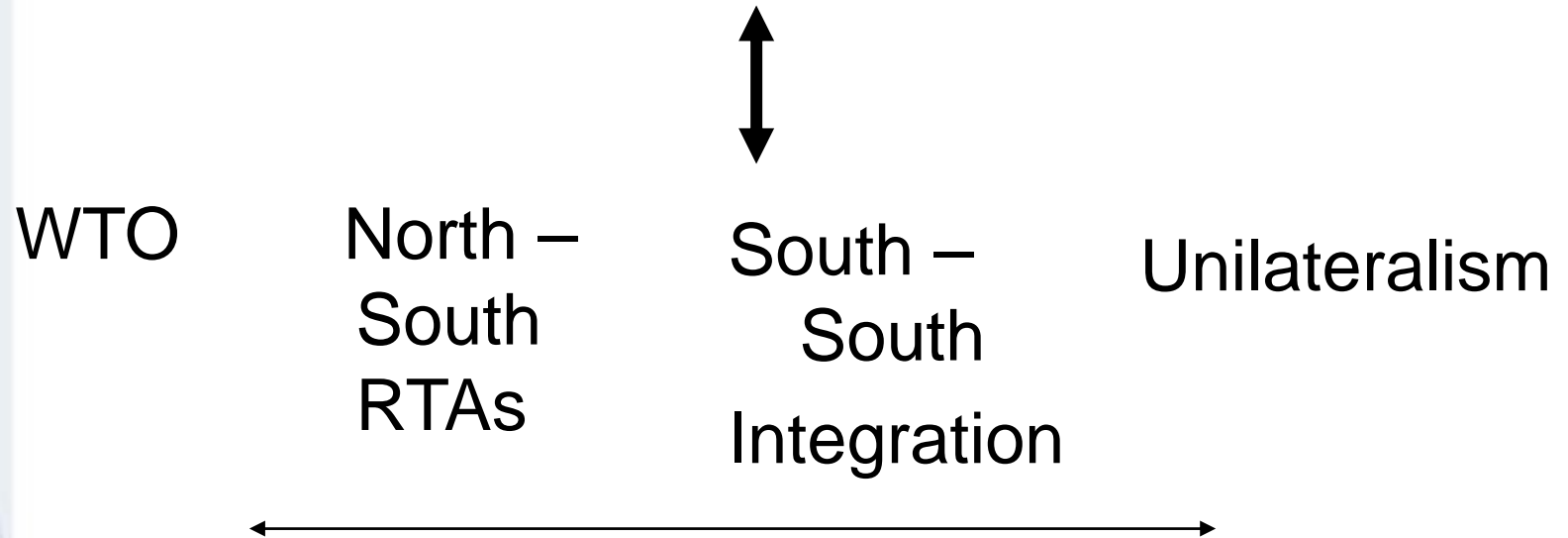
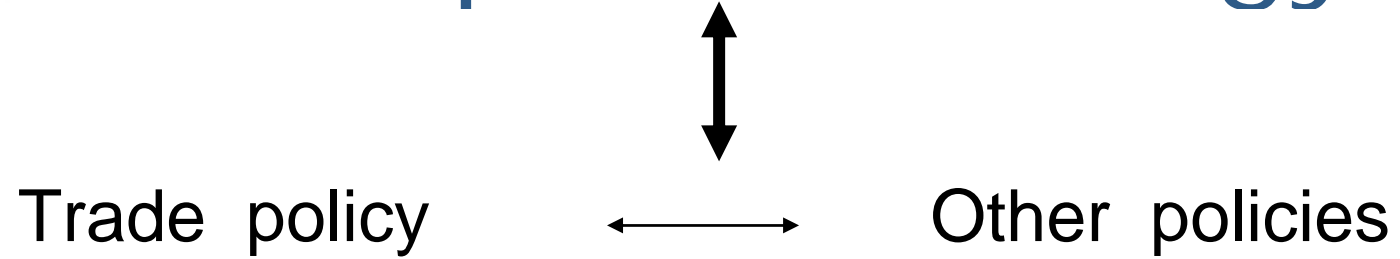
-Francesco Rampa-

Programme Officer
Economic and Trade Cooperation



EUROPEAN CENTRE FOR DEVELOPMENT POLICY MANAGEMENT
CENTRE EUROPÉEN DE GESTION DES POLITIQUES DE DÉVELOPPEMENT

Development strategy



Trade liberalisation with capacities

- “Growth will only result if the opportunity to trade is combined with the necessary capacities to participate in trade” (Mandelson, 04/02/05)
- “Trade nor market access by themselves are sufficient to promote development. Countries suffering from capacity constraints and institutional inadequacies will not be able to make the best use of market access, even under preferential terms.” (Dame Billie Miller, 30/09/05)



EUROPEAN CENTRE FOR DEVELOPMENT POLICY MANAGEMENT
CENTRE EUROPÉEN DE GESTION DES POLITIQUES DE DÉVELOPPEMENT

The Aid for Trade Debate

- Recent initiatives in the context of WTO Doha Development Round to extend special financial facilities to low-income countries to help them financing adjustment costs and strengthen supply/trade capacity while undertaking trade liberalization (MDGs)
- EU Council announced refocus of development funds towards 'aid for trade' (€ 1 billion per year, (G8 Summit, July 2005))
- Current thinking (Hong Kong:TaskForce):
 - resources should come from reforms (EU's CAP) or from gains from trade in rich countries;
 - resources should be channelled through existing frameworks (Integrated Framework);
 - more private sector in Aid design and delivery;

The Aid for Trade Debate

- Civil Society: in WTO and EPA, untie aid from trade.
- EPA highlights:
 - importance of effective delivery;
 - capacity to quantify liberalization costs/design accompanying measures?;
 - ownership of Aid decisions
 - coordination mechanisms (overlapping donors in EU);
 - careful sequencing of implementation of liberalization/development support.

- **Strategic & development dimensions of trade agreements**
 - Lock-in effects (policy reforms)
 - Trade as an instrument of development?
 - Trade and poverty
 - trade integrated into development strategy
 - RTAs to secure aid?
 - e.g. ACP-EU (EPAs)?
 - Geo-strategic dimension:
 - N-S RTAs not driven by trade (only)?
 - power play?

Relevance of EPAs...

- Negotiations. ACP Council of Ministers in June: grave concern that EPA so far failed to address development dimensions
- Public opinion. Stop EPA Campaign
- EU. EPAs are great opportunity for pro-poor Trade&Development Policies
- Possible impact on international 'Aid for Trade' debate

What Europe can do on EPAs

Mandelson (04/02/05)

1. Introduce a much stronger development focus into Economic Partnership Agreements
2. New mechanisms for monitoring the effectiveness of development assistance within the EPAs
3. Better coordination of Europe's overall aid effort between the EU and Member States
4. Greater transparency on Europe's trade and development record

Dame Billie Miller

CARIFORUM Ministerial Spokesperson on EPAs

“The EU Commissioners responsible for Trade and Development Cooperation, Peter Mandelson and Louis Michel respectively, have been promoting the EPA as a tool for addressing supply-side constraints and institutional shortcomings in the Region. The results so far have been less than convincing. Resources that could be directed at addressing these constraints have not been delivered by the European Commission, and in this regard it is expected that CARIFORUM Trade Ministers will express their scepticism and deep disappointment forcefully to Commissioner Mandelson.” (30/09/05)



EUROPEAN CENTRE FOR DEVELOPMENT POLICY MANAGEMENT
CENTRE EUROPÉEN DE GESTION DES POLITIQUES DE DÉVELOPPEMENT

ACP approach and concerns

- (I) EPAs should be tools for development
- (II) which require significant adjustment costs
 - the EU failed to grasp the magnitude of these adjustment costs
 - adjustment/development assistance and the EPA negotiations are intrinsically linked, and cannot be artificially disconnected
- (III) timely and effective mechanisms of support delivery
 - Current mechanisms insufficient and unsatisfactory (RPTF, EDF procedures, etc.)



Relevance of the EU case

- EU major player in Globalization (goods, services, factors - Politics)...
- ...but relatively new (Amsterdam Treaty CFSP 1997) and very complex (strong National States; institutional layers)
- Trade and Development...key debate in development cooperation + extreme cases in the spectrum of EU policies
- Trade Policy: EU as a single actor-CET from '70s-Clear picture (institutions and processes)  Impact
- Development Policies: Not a single actor(26)-New (DPS generic and only 2000)-Unclear picture  (relatively) Low impact
- (As a consequence?) EU is the first large globalization player to explore deeply the link Trade & Development
- Focus on ACP countries (EPA)
- Institutions and Policies...not much without political will

The ACP-EU Trade&Development Partnership

- Cotonou Partnership Agreement is unique: 3 Dimensions (Political, Trade, Development) and size of assistance
- Economic Objectives of Cotonou:
 - To strengthen regional integration
 - To foster smooth integration into the world economy
 - Transformation of the ACP economies, to promote sustainable development/poverty alleviation
- With EPA, the link Trade&Development is more and more explicit...mainstreaming trade (especially RI) in assistance (see Mid-Term Reviews)

Key challenges from EPA...

- Adjustments to reciprocity
- Loss of customs revenues
- Increased competition (Employment and social costs)
- Complex regional integration process
- Capacity problems at all levels
- Evolving global context (loss of preferences)



EUROPEAN CENTRE FOR DEVELOPMENT POLICY MANAGEMENT
CENTRE EUROPÉEN DE GESTION DES POLITIQUES DE DÉVELOPPEMENT

EU support...possible accompanying measures

- Budget support
- Regional integration
- Capacity to design/implement accompanying measures
- Remove supply-side constraints to benefit from market access and to enhance competitiveness:
 - Investment promotion / support
 - Support to private sector
 - Enabling macro-environment
 - Development of infrastructures and institutions



EUROPEAN CENTRE FOR DEVELOPMENT POLICY MANAGEMENT
CENTRE EUROPÉEN DE GESTION DES POLITIQUES DE DÉVELOPPEMENT

Development support

- European Development Fund (EDF)
 - RIP/NIP
 - Trade.com: € 50 mio
 - PMU EPAs: € 20 million
 - PMU WTO: € 10 million
- Other donors: EU MS, IOs, etc.
- No mandate to the Commission to negotiate development assistance in EPAs

Current support in EPAs

- Capacity building for negotiations
- Financial assistance: instruments and procedures of Cotonou
 - No additional resources:
EPA as part of EDF
 - Problem with procedures
- **Regional Preparatory Task Force** (RPTF)



EUROPEAN CENTRE FOR DEVELOPMENT POLICY MANAGEMENT
CENTRE EUROPÉEN DE GESTION DES POLITIQUES DE DÉVELOPPEMENT

- **Regional Preparatory Task Force**
 - NOT part of negotiation structure
 - Link EPA negotiations and development cooperation
 - Contribute ideas for cooperation activities
 - Facilitate efficient delivery of support
 - What is different from existing EDF?

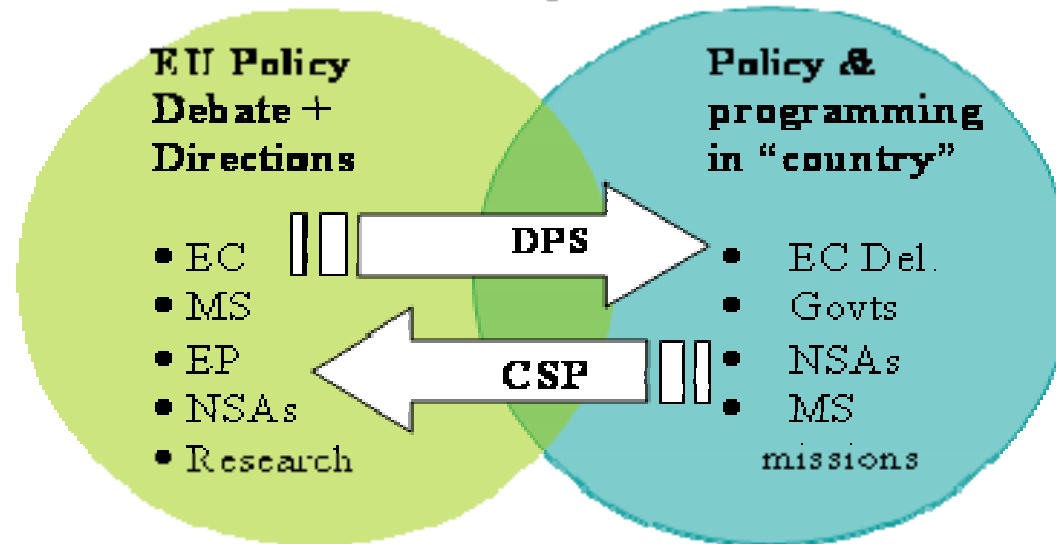
...Problems with existing development support

- large portions of EDF unutilized...too much emphasis on financial accountability?
- slow delivery of disbursements/projects implementation
- capacity and participation of ACP stakeholders
- EDF Regulations are prepared/approved without sufficient involvement of technical levels (NAO, RAO, beneficiaries)



EUROPEAN CENTRE FOR DEVELOPMENT POLICY MANAGEMENT
CENTRE EUROPÉEN DE GESTION DES POLITIQUES DE DÉVELOPPEMENT

EU Context (Legal / regulatory / institutional)



International Context

EU Development Policy- a picture

- **EU is the largest provider of Development assistance in the world, i.e. the largest donor (provides about 50% of all international ODA)**
- **The EC alone is the world's 4th largest donor**
- **Grants rather than loans**
- **Broad range of instruments, with potential for integrated approach (RIPs/NIPs/sector specific/budget support,etc.)**

EU Development Policies

- **Still difficult to talk about EU:**
 - **”shared competence” EC-Member States... example of WB/IMF (no coordination)**
 - **Only a ‘Development Policy Statement’, and 26 Development Policies**
 - **no single EC institution (DG Dev, AidCo, Relex and Delegations)**
 - **multi-layer: bilateral, EC, multilateral institutions**
- **Significant differences among MS (example Dfid vs MAE)**
- **(Nonetheless) peculiar role: ‘accompanying the South’...but Lome/Cotonou approach and in general more politically neutral**

Is the fluid EU Development Policy enough?

- Rapid change is taking place (internal and geopolitical):
 - Security
 - Enlargement
 - Moving Target: MDGs + upward trends (0.56% oda/gni by 2010)
 - Overall reform of External Relations
- How much development in this Policy Mix?
 - Area: 'Security for Development' ?
 - Geography: ACP vs Neighbours
 - Procedures: 'Budgetisation' of EDF + Performance-based Partnership?

Performance based partnerships:

- **From aid entitlements to performance incentives**
- **Positive conditionalities – incentives**
- **Good policy intentions but all depends on implementation**
 - **Jeopardizing the poverty objectives?**
 - **Performance as old wine in new bottles?**
 - **Undermining predictability ?**
 - **Joint assessments?**
- **Example of Mid Term Reviews of NIPs:**

...Development dimension of EPAs

- synergies / complementarity among national, regional, all ACP levels of support
- overlap/coordination/complementarity between instruments for development assistance by EU institutions, EU Member States, and other Donors/International Organisations
- roles, influence and coordination mechanisms among different institutions (DG Trade-DG Dev)

...Development dimension of EPAs

- Options: Mid-Term Review of National/Regional Indicative Programmes? sector specific/budget support? integrated approach?
- Security of funds , multi-annuality of EDF, Partnership principle, joint management
- Urgency for ACP to design specific proposals on development support



EUROPEAN CENTRE FOR DEVELOPMENT POLICY MANAGEMENT
CENTRE EUROPÉEN DE GESTION DES POLITIQUES DE DÉVELOPPEMENT

What can be done?

- On the policy side:
 - Integrating trade in development strategies (PRSP, CSP, RSP,...)
 - Ensuring the policy mix is properly taken into account (Security, Enlargement...)
 - coordination EC, EU MS, other Donors (IF...)
 - multi-annuality, partnership principle, joint management
- On the financial side:
 - Securing funding for EPAs at the appropriate level (maybe via a C envelope – beware of big facilities)
 - Securing additional funding (EPA as part of EDF?)
 - Overview of EU resources

What can be done ?

- **push for a greater coherence and complementary between the trade-related content of EPAs, the necessary accompanying and adjustment measures and the timely and effective delivery of support, possibly with binding commitments and careful sequencing**
 - the RPTF could be formally included in the EPA negotiations structure and its role strengthened;
- **that ACP (development) concerns are properly addressed in the context of EPA negotiations, possibly through the use of explicit development benchmarks and Monitoring Mechanism**

Conclusions

- **Development efforts are a ? while Trade Policy unstoppable and predictable (issue is mandate on single negotiations)**
- **On the other hand EU is better perceived in Development than Trade (negative impact)...near future great opportunities for pro-poor Trade&Development Policies (starting from EPA)**
- **Effective multilateralism (proactive&coordination) including commitment to UN and the Millennium Development Goals (unlike US)**
- **Success of overall EU policy towards the world as built on “weakness and acknowledgment of limits” (Marco Revelli)**
- **BUT without strong political will even improved policies and institutions are empty boxes (case of Italy and ODA):**
 - Fundamental gaps in legitimacy/ownership (Stop EPA)**
 - Trade as Development Tool, not Aid for Trade: Policy space (Schumpeter/Rodrik) + Risks of pushing EU model + Risk of making the link... is it developing countries’ choice? (capacity of implementing trade agreements)**

**For more information on ACP-EU
trade relations, please refer to:**

**www.acp-eu-trade.org
www.ecdpm.org**



EUROPEAN CENTRE FOR DEVELOPMENT POLICY MANAGEMENT
CENTRE EUROPÉEN DE GESTION DES POLITIQUES DE DÉVELOPPEMENT