

EU trade policy towards developing countries and Brexit

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Walter Kennes

ECDPM, ex DEVCO (European Commission)

Overview

- Some facts on EU and world trade
- The World Trading System
- EU preferential trade regimes
- EU trade regime towards developing regions: ACP, (Asia, Latin America), Mediterranean
- Possible effects of Brexit

External action policy mix

- **Trade policy:** negotiation and implementation (by the EU) of trade agreements with countries and regions; **DG TRADE**
- **Foreign policy:** possible suspension of trade agreements, non-execution clause e.g. because of human rights violations; **EEAS**
- **Development policy:** helping developing countries negotiate and take advantage of trade agreements; **DG DEVCO** (more than €1bn trade related assistance per year)

Gains and pains of trade

- **Trade liberalisation:** leads to increased specialisation and efficiency, hence there are winners,
- But there are adjustment costs (pains) and there are (short term) losers,
- Generally there are more gains than pains,
- But governments must tax the winners to help the adjustment of the losers so that over time they also become winners,
- There are no miracles.

Goods exports EU, US, Japan, China, (billion Euro, source EU)

| | 2006 | share | 2016 | share |
|-------|------|--------------|-------|--------------|
| EU | 1153 | 16.4% | 1745 | 15.7% |
| Japan | 515 | 7.3% | 583 | 5.2% |
| US | 826 | 11.8% | 1313 | 11.7% |
| China | 772 | 11.0% | 1930 | 17.2% |
| World | 7028 | 100% | 11213 | 100% |

Goods imports EU, US, Japan, China, (billion Euro, source EU)

| | 2006 | share | 2016 | share |
|-------|------|--------------|-------|--------------|
| EU | 1368 | 18.6% | 1708 | 14.7% |
| Japan | 461 | 6.3% | 548 | 4.7% |
| US | 1529 | 20.8% | 1978 | 17.1% |
| China | 631 | 8.6% | 1436 | 12.4% |
| World | 7347 | 100% | 11588 | 100% |

Services exports EU, US, Japan, China, (billion Euro, source EU)

| | 2006 | share | 2016 | share |
|-------|------|--------------|------|--------------|
| EU | 452 | 25.6% | 820 | 24.5% |
| Japan | 87 | 4.9% | 157 | 4.7% |
| US | 332 | 18.8% | 680 | 20.3% |
| China | 75 | 4.2% | 188 | 5.6% |
| World | 1768 | 100% | 3343 | 100% |

Services imports EU, US, Japan, China, (billion Euro, source EU)

| | 2006 | share | 2016 | share |
|-------|------|--------------|------|--------------|
| EU | 381 | 22.0% | 689 | 20.7% |
| Japan | 113 | 6.5% | 165 | 5.0% |
| US | 272 | 15.7% | 454 | 13.7% |
| China | 80.3 | 4.6% | 409 | 12.3% |
| World | 1735 | 100% | 3323 | 100% |

LDCs in world trade 2016 (source EU)

| | origin imports | destination exports |
|-------|-------------------|------------------------|
| EU | 13.2% | 24.7% |
| Japan | 3.7% | 2.3% |
| US | 3.0% | 8.2% |
| China | 20.3% | 21.0% |
| World | 100% | 100% |
| Value | €196bn | €123bn |
| share | 1.7% | 1.1% |

World Trading System

- Creation of the GATT (1947)
- UNCTAD (1964): import substitution
- Part IV on Trade and Development (1965)
- GSP system (1971)
- Uruguay Round (1986-1994)
- Creation of the WTO (1995)
- Doha Development Agenda (2001- ?)

Basic characteristics of the WTO

- Non-discrimination: Most Favoured Nation (MFN) clause
- MFN exceptions:
 - FTAs and CUs (Art. XXIV) with reciprocity (except when only among developing countries)
 - GSP
 - Waiver (very exceptional, time bound)
- Special and Differential (S&D) treatment for developing countries

Basic charact. of the WTO (cont.)

- Members driven organisation, unlike the IMF or the World Bank
- Small secretariat in Geneva
- Accession process is complex (costly, members ask for many concessions)
- Presently 164 members (UN membership 195)

Key results of the Uruguay Round (completed in 1994)

- Coverage of goods extended
 - Agriculture
 - Textiles and clothing: phasing out of the Multi Fibre Arrangement
- Services trade: GATS
- Intellectual Property: TRIPs
- Dispute settlement
- Trade Policy Review: TPR

EU trade regime

- MFN: only a few countries (US, Austr., Jap., ...)
- GSP: all developing countries and transition economies
- ACP trade regime (78 states, **until 2014**)
- Separate trade agreements (FTA) e.g. Mexico, Chile, South Africa, South Korea, Central America, Peru, Colombia
- European Economic Area: Norway, Iceland
- Customs Union: Turkey

Generalised System of Preferences

- Arguments for preferences
 - Encourage export industry
 - Increase export revenue (value est. € 2.2 bln)
- Arguments against preferences
 - No incentive to increase overall competitiveness
 - Limits product coverage in trade rounds
- GSP is a unilateral (EU) decision

EU's GSP (continued)

- Product coverage
 - Sensitive products sometimes excluded;
- Three GSP regimes:
 - **Standard GSP**
 - **Everything But Arms (EBA)** since 2001
 - Quota and tariff free access of all LDC products except arms
 - **GSP+** (environment, social, good governance)
- Revised GSP since 2014
 - no high or upper middle income countries; no FTA participants; new graduation mechanism

Rules of origin

- Why needed? To see whether or not a preference can be applied.
- Basic criteria:
 - Value added (e.g. 40 %)
 - Change in tariff heading (Harmonised System)
 - Process requirement (double transformation)
- Cumulation provisions
- Very sensitive and difficult issue in all regional trade negotiations (e.g. fisheries, textiles)

New EU-ACP trade regime

- Context (around 2000):
 - Declining share of ACP in EU imports:
 - From around 7 % in 1975 to around 3 % in 2000
 - It was demonstrated e.g. with the **banana war**, that the EU-ACP trade regime was not WTO compatible
- **Cotonou Agreement (2000)** announced a new WTO compatible trade regime by 2008
- During the launching of the DDA a **waiver** was accorded until end of 2007

Economic Partnership Agreements (EPAs) main characteristics

- Build on and consolidate ACP **regional integration**
- Negotiate with regions rather than (78) countries
- **Reciprocity**: rights and obligations for both sides
- **Instrument for development**: trade and integration is part of ACP development strategy
- **WTO compatible** FTA: but with maximum use of flexibility (90 % of total trade liberalised; long transition period; asymmetry)
- Preferably broad coverage: goods, services, trade-related issues

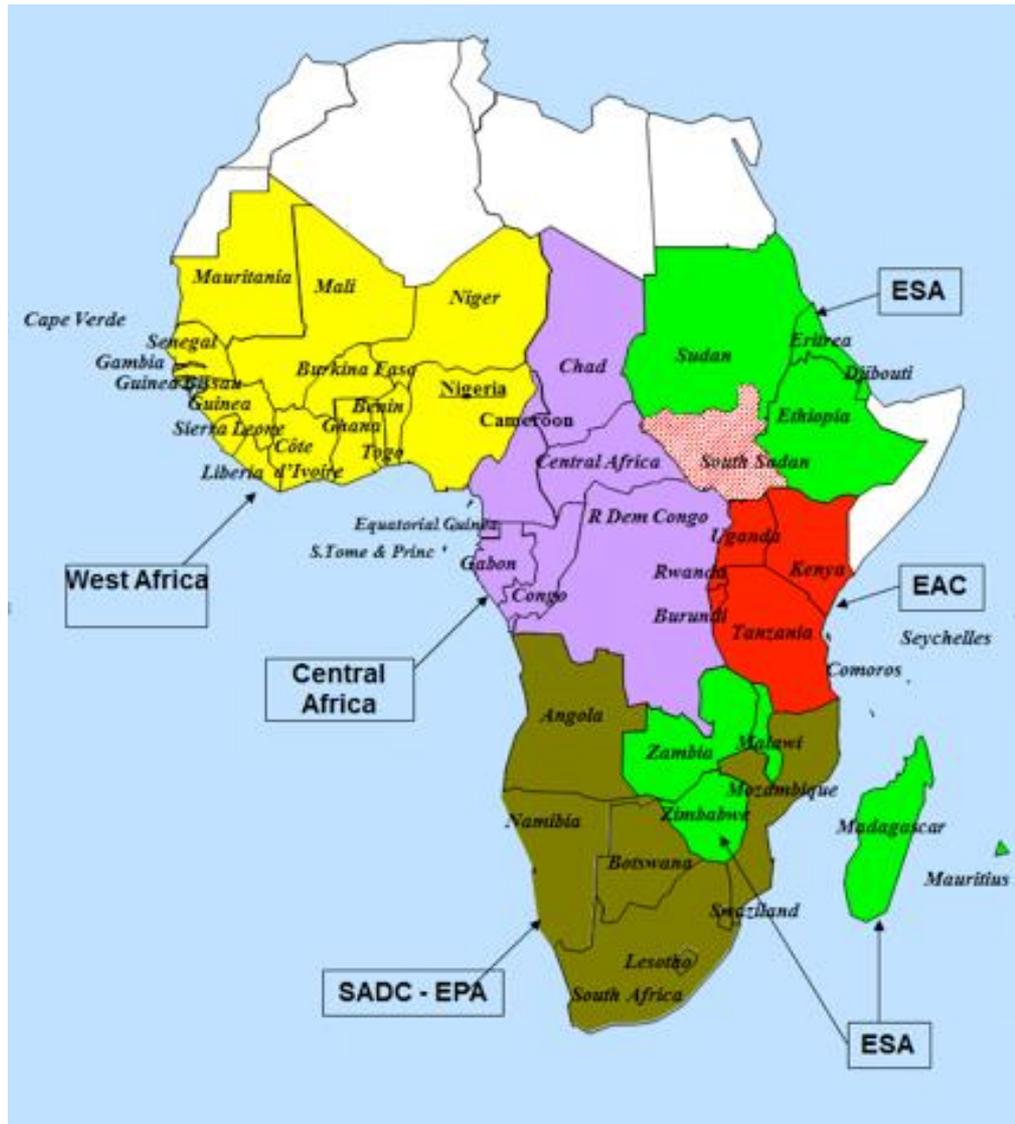
EPA: geographical configuration

- ACP to decide
- Link to existing regional integration initiatives
- But how much regional integration is needed?
 - Customs Union desirable
 - Free Trade Area would be OK

EPA: 7 negotiating regions

- Caribbean: CARICOM + Dominican Rep.
- Pacific: Forum Island States
- West Africa: ECOWAS + Mauritania
- Central Africa: CEMAC + Sao Tomé + DRC
- East African Community (EAC) Burundi, Kenya, Rwanda, Tanzania, Uganda
- Eastern and Southern Africa (12 countries)
- SADC (Botswana, Lesotho, Mozambique, Namibia, Swaziland, South Africa)

EPA configurations



EPA negotiations

- Long, complex and controversial process; civil society very active to support ACP lobbying to maintain the status quo;
- 41 ACP states are LDCs that have little incentive to negotiate because **GSP Everything But Arms (EBA) regime allows full access to EU market**
- All the ACP negotiation configurations comprise LDC and non-LDC countries
- **ACP regional integration in Africa is confused, with overlapping regions and conflicts**
- There are **adjustment costs** for the ACP, **benefits** are difficult to demonstrate and take time

2008: end of the WTO waiver

- Market Access Regulation (MAR, 2007)
 - Temporary measure to maintain EU trade regime at the end of the waiver for countries that initialled or signed an **interim EPA**.
- Several countries initialled or signed such an interim EPA and the MAR applied
- From end 2014: for countries that did not undertake steps towards an EPA the GSP will apply, including EBA for the LDCs, or GSP+

EPAs State of Play (2019)

- **Caribbean signed a full EPA (FTA+) in 2008**
- **ECOWAS** agreed an EPA in 2014; but Nigeria?
Ghana and Côte d'Ivoire signed interim EPAs
- **SADC group** (Botswana, Lesotho, Mozambique, Namibia, Swaziland, South Africa) agreed an EPA in 2014 (but only 6 of the 15 SADC members)
- **EAC** agreed an EPA in 2014; Tanzania?
- **ESA**: only interim EPAs signed by Madagascar, Seychelles, Mauritius, Zimbabwe
- **Central Africa**: only Cameroon signed interim EPA
- **Pacific**: PNG and Fiji signed interim EPA

EPA process: appreciation

- Due to lengthy negotiations and confusion the EPAs led to strained ACP-EU relations. It was hard to explain that the status quo was not an option (banana dispute was just an illustration of many more potential disputes);
- Did the strategy of using EU trade policy as a tool to support ACP integration work? **To some extent it worked** (Caribbean, West, East and Southern Africa), but it will take time before the economic results can be properly assessed.

EPA process: appreciation (2)

- Difficult to effectively use the **very sizeable development aid** earmarked for regional cooperation and EPA process; e.g. for Eastern and Southern Africa in total €761 mn and €1332 mn under 10th and 11th EDF.
- A lot of this aid was targeted to the main regional integration bodies, but these bodies did not always get the necessary political support from their member states;
- Still, EPAs are now more accepted, in the long term EPAs may contribute to African trade integration and pave the way for an EU-Africa trade agreement.

EU trade relations with Latin America

- **MERCOSUR:**
 - Negotiations on an FTA with the EU started in 2000, but little progress because strong divergencies; accession of Venezuela to MERCOSUR complicated matters
 - Negotiations paused in 2012 and resumed in 2016
- **Andean Community**
 - Because of divergent views among Andean states no regional negotiation, but comprehensive FTAs agreed with **Peru** and **Colombia** in 2013 joined by **Ecuador** in 2016

EU trade relations with Latin America (cont.)

- **Central America:**
 - Long-standing cooperation on regional integration
 - Comprehensive **Association Agreement** covering political dialogue, cooperation and trade in 2012
 - Regional cooperation in support of the Association Agreement continues under the 2014-2020 MFF (unlike with MERCOSUR or the Andean Community)
- The 1997 trade agreement with **Mexico** was renewed and deepened in 2018
- Negotiations to deepen and renew the 2002 trade agreement with **Chile** started in 2017

EU-ASEAN: trade relations and support for regional integration

- Region to region FTA negotiations started in 2005, but quickly replaced by bilateral negotiations
- FTA negotiations concluded with Singapore in 2013 and Vietnam in 2015; ongoing with Malaysia (since 2010), Thailand (2013, since 2014 on hold), Philippines (2015) and Indonesia (2016)
- Possibility to resume region to region trade negotiations is regularly considered, but no specific plans
- EU support to the ASEAN Secretariat for integration capacity building substantially increased for the period 2014-2020
- Application of Singapore and Vietnam FTAs delayed

The Euro-Med trade relations

- Under the Barcelona process: Association Agreements comprising FTAs concluded between 1995 and 2002 with: Tunisia, Israel, Palestine, Morocco, Jordan, Egypt, Algeria and Lebanon
- FTAs cover agriculture and industry, but not services
- Pan-Euro-Med Cumulation of Origin

Euro-Med trade agreements under Neighbourhood policy

- From 2005 the EU favours « deep and comprehensive FTAs »
 - Include services and regulatory convergence
 - Work towards approximation of EU acquis
- DCFTA under negotiation with Morocco, and Tunisia since 2012
- Negotiations yet to start with Egypt and Jordan

What about Brexit?

- The trade effects in general depend on the type of Brexit that will be chosen,
- 3 alternative types:
 - A: soft Brexit, UK stays in EU customs union (and single market): unlikely
 - B: UK makes a special trade deal with the EU27, maybe comparable to CETA: most likely
 - C: hard Brexit in the absence of a deal, the WTO's MFN regime will apply: unlikely

Brexit and trade with developing countries

- EU27 trade with developing countries will not be affected; all existing agreements continue to be applied;
- UK trade with developing countries: with type A there are no effects, with types B or C effects can be substantial;
- UK can install its own GSP, similar or better than the EU's GSP;
- This would be OK for some developing countries, but difficult for others like ACP

Brexit and trade with developing countries (cont.)

- EU trade agreements no longer valid for UK when Brexit (types B or C) is effective
- During the transition phase the UK can start preparing new agreements, which could copy the EU agreements
- Confusion and disruption of trade flows is very likely (e.g. on rules of origin): UK lacks trade negotiation capacity and will focus on key partners like the US, Canada and Australia.

Concluding observations

- Trump's trade policies are a risk for trade with the US and more widely for the multilateral trading system under WTO
- But the future of the world trading system will also depend on developing countries
- Africa rising: African exports become more diversified and there is increased interest in investment
- Long-term perspective for EU Africa trade agreement?

Concluding observations (cont.)

- The EU remains a champion of both regionalism and multilateralism
- EU external action in the form of development cooperation and trade policy can be effective, there are several interesting success stories,
- but, it is a continuing challenge to ensure success;
- external action can only work well when domestic conditions and policies are OK.

Some reference documents

- European Commission (2002) Trade and development: Assisting developing countries to benefit from trade COM(2002)513
- European Commission (2006) Global Europe, competing in the world COM(2006)567
- European Commission (2012) Trade, growth and development COM(2012)22
- European Commission (2014) Trade for all, towards a more responsible trade and investment policy.

Some information sources

- WTO
- ECDPM (a lot on ACP-EU trade matters)
- DG TRADE, DEVCO
- ACP Group
- Exporthelp.europa.eu

THANK YOU