



15 August, 2011

## Danish position on the Commission's Public Consultation on a new Trade and Development Communication 2011

### Trade, inclusive growth and development

The 2010 Trade, Growth and World Affairs communication points out that Trade is an engine for global growth. It contributes to long-term jobs in the EU and around the world. It has a real impact on the day to day lives of people and businesses in Europe, and offers a path to development to those in most need, wherever they live.

#### 1. How could the EU support developing countries better integration into the world economy?

Supporting the developing countries' integration into the world economy with the objective of creating sustainable economic growth and poverty reduction requires a multifaceted coherent approach both at global, regional and national level. The EU must support structural transformation through enhancement of productivity and value added and patterns of growth that enable the bulk of a country's productive units and economic agents to contribute to and benefit from growth. This presupposes a deliberate targeting of trade policies, Aid for Trade, development assistance and internal EU policies.

EU must continue to strive for a successful development friendly conclusion of the Doha Round, including a possible "early harvest" in the form of a "LDC package". Furthermore in its bilateral/regional trade relations with developing countries and its GSP scheme, EU's approach should be guided by the objective of maximizing the development impact of its trade policies.

However, simply promoting trade liberalization will not be sufficient. Emphasis should be on building capacity to produce and overcome technical barriers to trade in developing countries and improving their national framework conditions in order to be able to compete in the global trading system.

2. What policies and reforms in developing countries are needed to ensure that trade liberalization improve those countries' prospects for inclusive growth? In this context, how could EU policies contribute to improving domestic resource mobilization in developing countries?

The EU should support accelerated growth and policies and interventions that expand the basis of growth. The aim is to make it possible and worthwhile for a rapidly growing number of potential entrepreneurs, farmers and laborers to engage in productive activity. Making markets work through reforms designed to improve the business environment for entrepreneurs and farmers of all categories, accompanied by appropriate flanking policies, investment in human resources and dismantling of gender related barriers are key ingredients. Economic integration, including regional integration, can help create larger domestic markets. This implies also addressing market failures such as lack of financing and affordable transport as well as building infrastructure to dismantle physical bottlenecks, overcoming technical trade barriers and avoiding inappropriate policies promoting economic development out of line with a country's endowments.

Advocate for a more broad-based industrial policy based on competition, market discipline and public-private dialogue.

3. Which aspects of sound economic governance are important for sustainable social and economic development?

The design and effective implementation of sound macro-economic policies are fundamental to promoting sustainable social and economic development. So is a transparent and predictable and un-bureaucratic institutional and regulatory environment, including in relation to import and export, as well as easily accessible financial services for businesses of all sizes and kinds.

4. What can be done to ensure that the gains from greater trade and investment are more evenly distributed, especially to the worst-off groups in developing countries?

The gains from trade integration to the poor should be maximized through policies and interventions that enable small-scale operators of both sex to enter mainstream economic activity and competition on reasonable and generally accepted terms. The regulatory and fiscal framework should facilitate their full contribution as economic agents while reflecting the

realities of informal and formal operators and providing for a manageable transition from the former to the latter. In addition, the ability of the poor to participate as economic agents should be enhanced through investments in their education, health, access to infrastructure and transport as well as safety nets and insurance facilities providing protection from economic shocks. Complementary policies also need to be in place, including suitable macroeconomic policies, efficient labour markets, a supportive system of education and training and a sound regulatory environment. Moreover, products that target the population at the “base of the pyramid” can make daily life easier for these consumers and free up resources for other economic activity.

5. The EU pursues a comprehensive approach to trade negotiations with developing countries encompassing services, investment and trade-related issues (e.g. competition policy, innovation and intellectual property rights, public procurement, good governance in the tax area, environmental and social aspects). Should this approach be maintained or adjusted?

The EU’s present comprehensive and ambitious approach to trade negotiations should in general be maintained. However, when negotiating with low income countries (LICs)/least developed countries (LDCs) for example within the framework of the Economic Partnership Agreements (EPAs), the EU should carefully consider the countries’ level of development, country specific defensive interests and capacity to benefit from trade liberalization, as well as interests related to ongoing regional economic integration. In order to reach a development friendly outcome, the EU’s approach in the EPA negotiations should be guided by flexibility and readiness to adapt to the situation in any specific region.

Economic and demographic growth will increasingly take place outside Europe and the industrialized world, but will not be evenly distributed. EU action has to adapt to this changing reality in order to have an appropriate relation with the emerging economies and while assisting the efforts of less performing and more vulnerable ones. In the Public Consultation related to the Future Trade Policy, many respondents agreed on the importance of different approaches in EU trade relations according to the level of development of our partners, in order to focus the attention on the countries most in need or for a better consideration of the position of emerging countries.

6. What approach to the increasingly differentiated developing world would be the most successful to reduce poverty worldwide?

The approach should first of all be based on policy coherence between trade and development policies, but also with EU’s internal policies. Moreover, there is no “one size fits all” when combating poverty in developing countries. To be successful, interventions need to be tailor-made to each country’s challenges and opportunities and national priorities.

7. How could agreements with more advanced developing countries (such as China, India and Brazil) better reflect their increasing role in the global economy?

The increasing role of emerging economies such as China, India and Brazil should be reflected in terms of an increased level of ambition in trade negotiations both with respect to the pace of liberalization, product coverage, reciprocity and flexibility on number of areas to be included in the negotiations. However, notwithstanding their high growth rates, increasing competitiveness etc., a large number of the world's poor people continue to live in middle income countries – a fact that should not be forgotten and needs to be taken into account when EU negotiates with these countries. The EU should also encourage emerging economies to provide duty-free-quota-free (DFQF) market access to their markets for products from LDCs and to provide development assistance, bilaterally and multilaterally that help LDCs effectively use their market access.

### Investment

The current phase of globalisation has seen a dramatic increase in foreign direct investment. The EU remains the largest source of FDI in the global economy. FDI is a key driver of development, a major source of productivity gains, business, development and jobs abroad. It also assists in building up the global supply chains that modern economies need.

8. Should EU trade policy and negotiations aim to establish open and stable conditions for investing in partner countries, including developing countries? And should the EU differentiate to take account of trade partners' development level and if so, what criteria should it use?

The EU should use all policies available to it to support the development of an enabling environment for domestic and foreign investments. The EU's development instruments are, however, seen as more relevant to this end than trade policy.

9. How else can the EU tailor its investment policy to promote and sustain inclusive growth in the developing world?

According to UNCTAD, FDI has played an increasingly important role in LDCs in the last decade as a major contributor to the countries capital formation. Although the trend is towards a more diversified FDI regime, investments are still overly concentrated in export-oriented primary production with limited employment, technological and productivity linkages. It is important to create conditions that attract investment into areas with more potential linkages – up-stream and downstream – to the rest of the real economy. The EU can best pursue this goal through its role in development cooperation in-country.

Moreover, the EU may promote awareness of the UN-backed Principles for Responsible Investments (PRI) among investors in order to increase integration of social and environmental considerations in investments in companies operating in the developing world.

10. And how can it best encourage Corporate Social Responsibilities practices by investing enterprises and their suppliers, while adapting to different national and regional contexts?

In selecting the appropriate types of interventions and methods to encourage CSR, the local contexts must be taken into consideration. EU should promote and support a strategic and proactive approach to Corporate Social Responsibility (CSR) by promoting partnerships with stakeholders in developing countries incl. responsible supply chain management, respect for human rights, labour rights and protection of the environment. The EU may do so by increasing awareness among businesses of international initiatives such as UN Global Compact, the UN Guiding Principles for the implementation of the UN “Protect, Respect and Remedy” Framework and by promoting the use of the international ISO26.000 Guidelines on Social Responsibility. To further this aim, EU could politically and financially support and engage in the continuous development of these international initiatives. Many European countries already have facilities aimed at supporting broad partnerships, not least when it comes to development assistance.

Without jeopardizing the voluntarism of CSR, EU should establish a flexible EU-regulation on companies' disclosure of non-financial information, encompassing both listed and non-listed large companies and investors. An EU-regulation on reporting on CSR should refer to internationally recognized initiatives on CSR, such as UN Global Compact and PRI, and not develop any new European standard.

### Services

Services are important for developed as well as for developing country economies.

The rapidly expanding services sector is contributing more to worldwide growth and job creation than any other sector. It accounts for 75% of EU GDP and 50% on average in developing countries. Efficient services infrastructures boost the competitiveness of other economic sectors. An effective global manufacturing supply chain cannot exist without the vital support of transport, telecom, financial, business and professional services.

11. What conditions are needed for the service sector improvement in developing countries? And what conditions are required for that improvement to enhance growth prospects, boost employment and reduce poverty? What specific conditions, if any, are necessary for the LDCs?

There is no “one-size-fits-all” approach to service sector improvements. Each country has its own characteristics which need to be carefully assessed in order to develop the right policy interventions. Having said that, developing countries often face a number of structural weaknesses that are common to all services sectors, including inadequate regulatory frameworks, poor infrastructure and energy supply, poor access to capital and technology, numerous and fragile SMEs and lack of institutional capacity to put in place the right sequencing of policy reforms and liberalization initiatives. Moreover, an area of key importance to the development of the service sectors is the improvement of the supply of highly skilled workers who can fulfill the increasing technical requirements in various service sectors. Women

are often playing a significant role in services and would benefit from growth in the sector, particularly if they are given opportunities to overcome gender related obstacles to development and diversification of their enterprise.

Besides domestic constraints, export in services are often hampered by various trade barriers, for example with respect to commercial presence and the movement of natural persons. In terms of the LDCs, the agreement of an LDC Services Waiver as part of an early harvest of Doha Round would enhance the growth prospects of the services industries in LDCs if implemented in a coherent manner with development assistance/Aid for Trade aimed at overcoming domestic constraints.

### Public Procurement

Public procurement is the process by which government buys the goods and services the public sector needs to operate from papers clips to computer systems, waste water plants, ship building or consulting services. Public procurement is considered an anchor for regional integration and development (e.g. fight against corruption, level playing field, enhanced accountability). Untransparent, discriminatory procurement procedures and practices significantly distort trade and curb growth potential. While the EU asks its industrialised trade partners for a substantial liberalisation of public procurement, in negotiations with LDCs, the main emphasis is on encouraging transparency and the creation/strengthening of regional procurement markets.

12. What conditions are needed to ensure that, when developing countries open their public procurement markets, this enhances their growth prospects, boosts employment, and reduces poverty? Are these conditions the same for all types of developing country?

A precondition for using local public procurement systems must be transparency and reliability for all parties involved including donors and companies. In its “Joint Guide for Strengthening and Using Reliable Country Procurement Systems” of September 2009, (<http://www.unpcdc.org/media/142160/jppguidefinal090909.pdf>) the “Nordic+ Procurement Group” emphasize that the best way to develop country systems is to use them.

Where the procurement capacity is not entirely satisfactory, donors should consider providing procurement capacity development support, taking into consideration local Audit Authorities and Anti-Corruption Agencies. To ensure the most extensive use of local procurement systems the donor approach has a significant role.

### Trade and sustainable development

The impact of increased international trade flows on overall economic development and on jobs, labour standards, human rights, environment and climate depends to a large extent on policies other than trade policy. However, if trade is to deliver the expected benefits, those policies, together with other relevant factors, need to be taken into account as an integral part of the trade policy-making process. In accordance with the European Council's conclusions on the renewed sustainable development strategy, as well as the Lisbon Treaty, EU trade and investment policy will have to contribute to sustainable development, including by improving environmental, labour and social standards and respect for human rights.

13. How can EU trade policy (continue to) support sustainable development in developing countries?

The dismantling of remaining subsidies and other impediments to trade that hamper the distribution of production based on absolute advantages would be one of the most effective means to address sustainability.

Also, the EU should continue to use its incentive based approach to support sustainable development and environmentally friendly products in developing countries, for example via the inclusion of chapters on sustainable development in free trade agreements or via the special arrangement for sustainable development and good governance (GSP+). The main trust is that trade preferences coupled with cooperation and dialogue is a better way of promoting sustainable development than via trade sanctions and isolation.

Finally, the EU's trade-related efforts to promote sustainable development should not be viewed in isolation, but in close cooperation with EU's other policies in support of sustainable development.

14. Should EU trade policy specifically promote the respect of human rights in developing countries? If so, how?

It is important to pursue a targeted and consistent human rights policy making use of all relevant instruments, including trade instruments, and not only towards developing countries.

The EU must ensure that human rights are not being compromised in the name of economic and trade interests and that trade policy will not directly or indirectly have a negative influence on human rights, but a more proactive policy is obviously also called for.

The EU already has a range of instruments at its disposal to this end such as GSP+, human rights clauses in bilateral cooperation and trade agreements and the adoption of (trade and other) sanctions and/or withdrawal of preferential trade in severe cases.

It is also important to strengthen the cooperation and understanding between the trade and human rights communities, which still to a large extent are acting in isolation from each other. The EU should explore how to institutionalize relations between the trade and human rights communities.

The increased CSR efforts present another opportunity to strengthen the promotion of human and labour rights.

The EU is one of the biggest importers of natural resources (fossil fuels, minerals, timber etc.) from developing countries. The environmental impact of resource use by the EU and other major economies is felt globally.

15. How can EU trade and development policy further promote sustainable management and efficient use of natural resources in developing and emerging economies, and what measures should be implemented in order to avoid environmental negative consequences in the exporting countries ensuring long-term benefits for local people?

EU should continue to support initiatives such as Extractive Industries Transparency Initiative (EITI) as described below in the introduction to question 20.

Moreover, to avoid environmental negative consequences, it is important to promote a policy framework and regulation that can further trade-/market-driven growth in a sustainable manner and not e.g. allow lower requirements or standards for manufacturing enterprises become a competitive parameter due to pressure from strong private interests. Hence, it demands a public sector, which clearly defines the necessary actions including administration of natural resources – often the most important national asset – in the best interest of the country, including the poor and the environment. This includes support to capacity building at various levels and simultaneous investments in infrastructure, education, health and other social sectors that are necessary for ensuring long-term sustainable development.

Trade-related sustainability assurance schemes such as natural resource-based product certification or fair and ethical trade schemes can make an important contribution to sustainable growth in developing countries.

16. How can EU trade policy (continue to) maximise the potential of such schemes for developing and emerging economies while addressing risks of confusion related to a multiplicity of such standards? What should be the role of the private sector here?

EU can support stronger coordination and development of international/universal principles to reduce the multiplicity of national schemes and standards covering specific areas or sectors. Development assistance can complement the market-driven demand, e.g. through support to capacity building and training to assist poor farmers and manufactures to produce under socially responsible and environmentally sustainable conditions meeting consumer demand and international certification schemes.

See reply to question 10 regarding the private sectors voluntarism in relation to CSR.

The Commission has funded 'corporate social responsibility' campaigns encouraging new models of private sector involvement in the economic development of developing countries. These models involve a partnering approach considered beneficial for the company concerned and for the local community in which the company invests.



17. Do you think this approach is successful? And should it be encouraged through EU trade and development policy?

A partnering approach is perceived as the right way forward, and should definitely be encouraged through EU trade and development policy in coordination with UN initiatives.

Trade policies and trade liberalization impact differently on women than on men due to factors like unequal access to the formal sector, income-generating jobs, land, credit, information and economic decision-making

18. What are the main factors limiting the involvement of women in trade in developing countries? How can trade and development policies address these constraints?

Women are frequently systematically discriminated against also in the economic domain. They constitute a considerable, unutilized potential in terms of influencing and contributing to growth. Focus should be on supporting equal access by women to property rights, financial services, the labour market, education, vocational training and technology with the aim of enabling them to break into more and more lucrative areas of economic activity. Safety nets and insurance against shocks are also often particularly important to female entrepreneurs.

#### Trade Agreements

Alongside global negotiations in the WTO (the 'Doha development round'), the EU conducts bilateral negotiations with partner countries and regions around the world, to better tailor its relations with each country and group of countries.

19. What can the EU do to ensure that the free-trade agreements it is currently negotiating contribute to further development, including beyond the partners directly involved in the negotiations?

When negotiating bilateral arrangements the EU should remain sensitive to the developmental impact on third party LICs, seeking to avoid trade diversion and disruption of ongoing regional trade integration efforts. In this regard, there could be scope for making more effective use of the Commission's Trade Sustainability Impact Assessments which are carried out in connection with EU's trade negotiations. This positive assessment tool could probably be used on a more systematic basis during the negotiation process in order to avoid negative impact on countries not involved in the negotiations. In this connection it should be noted that the Commission in the new EU trade strategy "Trade, Growth and World Affairs" mentions that once negotiations are concluded and before signature, the Commission will prepare an analysis of the consequences of the proposed deal for the EU. The scope of such an analysis should preferably be expanded to also cover consequences for partners not involved.

Moreover, another important area which can have repercussion for countries not involved in the EU's trade negotiations is rules of origin (RoO). Here it is important that provisions on RoO in EU's trade agreements are coherent with the objective of increasing development countries' possibilities to take advantage of increased South-South regional trade.

## Raw Materials

The integrated EU raw materials policy acknowledges that volatility and unpredictability of prices harm the interest of both importers and exporters. The Commission has therefore called for increased transparency and reporting requirements on the underlying physical and (financial) derivatives markets. EU policy proposes a holistic approach to guarantee a fair and sustainable supply of raw materials from the developing world. By supporting initiatives like EITI and FLEGT, it encourages supplier countries to use their revenues transparently and for development purposes. And it acknowledges the need to apply trade rules as flexibly as possible to take account of the different levels of economic development in these countries.

20. What is the best way for EU trade policy in raw materials to boost key development objectives of improving governance, building up administrative capacity, minimizing global prices volatility and opening new foreign investment possibilities, in developing countries and notably in LDCs?

There is evidence that economies overly reliant on natural resources extraction have a tendency to develop in socially and democratically skewed directions. The EU should support the development of diversified and inclusive real economies and a broadening of the basis of taxation. This includes assisting in building democratic and administrative structures that create transparency and predictability in public management and a steady strengthening of the accountability of governments and the civil service towards the citizens. This is best achieved by way of the EU's development and political instruments and is particularly important in countries in risk of falling into the natural resources trap. Supporting and acting within the framework of the Extractive Industries Transparency Initiative (EITI) and related international efforts can help steer development in the right direction.

## Trade and Natural Disasters

In the recent "Trade, Growth and World Affairs" Communication, the Commission announced its intention to explore how trade can help third countries (in particular the most vulnerable ones) hit by natural disasters, such as the earthquake in Haiti and the floods in Pakistan. The objective is to discuss if and how trade tools may be employed in post-disaster situations, with a view to help rebuild the economic infrastructures and trading capabilities of a developing country. These goals have traditionally been pursued by development assistance and in some cases humanitarian tools in the early recovery phase; hence the feasibility, impact and timeliness of trade actions in this context as well as the possible distorting effects have to be assessed carefully.

21. Can trade policy be used as part of the response to natural disasters? If yes, which EU trade instruments could be used to support poor and vulnerable countries hit by natural disasters? And how could possible distorting effects of such intervention be minimised/avoided?

When countries are hit by natural disasters, it is important that the EU is both coherent and comprehensive in its approach, including the use of both political, development assistance and trade instruments. While the immediate focus should be on the delivery of budget support to counter potential fiscal impacts of a natural disaster as well as humanitarian aid and reconstruction of basic infrastructure and productive resources, the extension of a country's

market access to the EU can also be an essential contribution to economic reconstruction and long term social and political stability. Unfortunately, the recent practical experiences in connection with the floods in Pakistan have underlined the political difficulties of using immediate short term market access as an emergency measure. Nonetheless, this disappointing case should not make the EU disregard trade instruments as part of the policy toolbox when responding to natural disasters in the future.

#### Aid for Trade initiative

Aid for trade (AfT) is financial assistance to help developing countries (especially the least-developed countries) beat poverty by developing their capacity to trade more effectively. Support can cover virtually any area that the recipient country considers important for this purpose, e.g. transport, productive sectors, trade negotiations capacity, port or customs facilities, helping factories meet European health and safety standards for imports, etc. The EU is continuing to make progress in AfT, together with the EU Member States. Total EU and Member States AfT actually reached €10.5 billion in 2009 (it was €10.4 billion in 2008, €7.3 billion in 2007 and 6.5 billion in 2005).

#### 22. How could the EU make AfT more effective at country level?

It is important that Aid for Trade (AfT) is delivered as an integral part of an overall package of external support designed to help boost a country's capacity to trade and aimed at addressing the binding constraints. Despite some progress, AfT remains too much of a reporting category and not enough of a functional framework structuring aid delivery around needs, coherence and synergy. The EU should become a much stronger player in the effort to materialize the intended benefits of AfT, by helping to create the necessary in-country platform for AfT coordination with participation from the private sector, government and donors, and by drawing actively on the analyses and frameworks provided by the Enhanced Integrated Framework (EIF), International Trade Centre (ITC) and the other agencies providing AfT.

#### 23. What are the main constraints on increased trade that should be addressed in the least-developed countries?

From an external partner perspective the main constraint is to ensure that external aid is delivered within a coherent framework that systematically and comprehensively address the binding constraints to trade in partner countries.

The constraints to trade faced by LDCs are numerous and differ across countries, but among the most common ones are often inadequate economic infrastructure, financial services, competitiveness, export diversification and institutional capacity to support private sector development.

Due to the fact that resources and the political capital for reforms are limited, there is a clear need to identify the most binding constraints in order to prioritize policy interventions. Here the EIF has a crucial role to play as the main mechanism for identification, coordination and mainstreaming of priorities into the LDCs' development strategies.

24. Should emerging economies devote part of their cooperation for development facilities to support trade in poorer developing countries?

The value of trade between LICs and emerging economies has grown six-fold over the past decade and financial flows in the form of both investment and aid have also increased rapidly. This development offers new opportunities, resources and perspectives for developing countries. At the same time, the interests and values of the emerging economies challenge some of the key items on the development agenda of the traditional donors, such as the efficiency of development assistance, the use of the recipients countries' own systems, donor coordination and a focus on environment, human rights, democracy and good governance.

Given this fast evolving relationship, a close dialogue and exchange of experiences with the emerging economies should be further promoted while also encouraging, for example via the G20, these countries to provide DFQF market access for LDCs and play a more active role in the trade & development/AfT agenda.

#### Final Comments

25. Please point out any other aspect you think important for EU trade and development policy, mentioning useful links or documentation publicly available.

Strategic Framework for Priority Area Growth and Employment, 2011-2015, Danida, Ministry of Foreign Affairs of Denmark:

<http://amg.um.dk/NR/rdonlyres/C1BB6F35-39AC-4AD3-9024-4B3B476139C3/0/GrowthandemploymentstrategicframeworkFINALMarch2011.pdf>

Danish Action Plan on CSR: <http://www.csrgov.dk/>