Center for Global Development

— CONSULTATION DRAFT —

Europe Beyond Aid: Assessing Europe's Commitment to International Trade

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Abstract

Rich countries' policies have a significant impact on the trading prospects of developing countries and their citizens. The trade component of the Commitment to Development Index (CDI) assesses the openness of rich countries to imports from developing countries, whether they provide agricultural subsidies which negatively affect developing countries' farmers, and what legal restrictions they pose on imports and services from other countries.

This paper in particular focuses on the performance of Europe as a whole and that of individual European countries in the CDI. While EU policies have not become significantly more open to trade with developing countries over the past decade, the same is true for other developed countries included in the Commitment to Development Index. The paper analyzes the key drivers of European performance and determines whether room for improvement should be pursued by Europe collectively or independently through individual countries.

Europe Beyond Aid Consultation Report Series

Europe Beyond Aid uses the Commitment to Development Index (CDI) to examine European countries' collective commitment to development on seven cross-border issues: aid, trade, finance, migration, environment, security, and technology.

We calculate a consolidated score for the 21 European countries included in the CDI to track their pursuit of development-friendly policies. In 2014 the Center for Global Development is launching a series of discussion papers for public consultation. Our goal is to press for a broader and more informed discussion about how European policies can improve. By the end of the year, we will synthesize the expert consensus on the seven themes of the CDI into a comprehensive and specific policy agenda for European countries setting out practical, evidence-based conclusions on how they can improve their policies which affect development and global poverty.

Please, share your comments, suggestions and ideas by email to pkrylova@cgdev.org. We will be looking forward to hearing from you.

1. Introduction

The two last years, the world trade policy scene has radically changed. It would be now pure blindness to deny that the WTO (World Trade Organization) negotiating forum is deadlocked, and that—following the US pivot to the Trans-Pacific Partnership (hereafter TPP)—most of the large to medium economies are now focusing almost exclusively on negotiating preferential trade agreements (hereafter PTAs).

The problem is that the EU PTA policy is not development-friendly. It accumulates too many concerns—foreign policy, environmental and social policies, *ad hoc* issues raised by a host of very different vested interests and by EUMS)—and it insists on inclusiveness and consistency. These two features have made the EU trade policy extremely complicated, relying on a multiplicity of overlapping, time-limited and often contradictory instruments.

To some extent, these problems are not specific to the EU. They reflect a general deterioration of trade policy in all the developed countries—a retreat from a non-discriminatory approach to trade, and the increasing burden of many non-trade or vaguely trade-related issues on trade policy. This evolution is largely due to the fact that trade instruments (such as tariffs or quotas) seem, at a first glance, easy to trigger and capable to deliver, and that their strong side and/or perverse effects are difficult to perceive (and easy to deny) initially.

But, they also mirror a specific EU problem—namely the way the EU trade machinery is working.

- The Commission has every incentive to do things if only for justifying its existence—hence a constant flow of "green papers" which have to be different for justifying their production, the institutional necessity to sign agreements in order to justify the request for mandates, even if the agreements are bad from an economic point of view.
- The EUMS have their own political agendas—amplifying the Commission-related problems by burdening the EU trade policy with many issues, often in a non-coordinated way.

2. Trends in the CDI Trade Component Measure and some insights on EU enforcement

This section aims at giving a sense of the degree of openness of the EU economies with respect to the rest of the world. It is divided into two main components.

- The first component provides the trends in the CDI Trade Component Measure (TCM) as it has been done during the past 11 years. As the TCM relies on tariffs and farm subsidies granted by the EU Common Agricultural Policy, this first component reflects mostly the traditional trade policy, characterized by a focus on these border barriers to trade.
- The second component makes an effort to mirror trade barriers which have increasingly attracted attention during the last decade—the so-called "21st century" trade policy. They consist in border non-tariff barriers, such as inefficient customs procedures, and in beyond-the-borders barriers, such as technical norms for farm and manufacturing goods, market regulations in services, restrictions to foreign direct investment and to access to public procurement markets.

The traditional trade barriers are largely under the EU "exclusive competence" rule. This means that EU decisions on such barriers are based on a majority voting procedure among EU Member States (EUMS). However, the exclusive competence rule has three limits:

- The fact that EUMS have no veto power in trade matters does not mean that they have no strong say—if they wish so. This is because an EUMS which wants to make its views prevailing on a trade issue that it sees as vital to its interests can always threaten to block EU decisions in another domain if it fears not to get what it wants in trade matters.
- Enforcing adopted EU trade decisions leaves a lot of room to EUMS. This degree of freedom is even true for instruments which seem to leave no room for freedom, such as tariff rates: the speed and cost with which certain products are imported vary hugely among EUMS, making somewhat variable the costs of entering EU markets. Of course, the degree of freedom is even bigger for the barriers classified as 21st century.
- Many instruments with a strong impact on trade issues are still under the exclusive competence of the EUMS. This is particularly the case of the regulations associated to the 21st century trade agenda (norms for producing goods, norms on products, services market regulations, public procurement, etc.) which are associated to the (by far) larger share of the EUMS GDP.

These limits explain the contrast that emerges from the results shown below:

- The first component (TCM) suggests very little variance among the EUMS.
- By contrast, the 21st century barriers suggest massive variances among the EUMS.

In this context, it would have been ideal to combine all the information on these two components into one aggregated measure. Unfortunately, this goal is out of reach for the time being because the 21st century instruments are often hard to measure, extremely numerous and hugely different. As a result, what follows adopts a "fragmented" approach, collecting information on key barriers without attempting to merge all this information into one indicator.

Trends in the CDI Trade Component Measure: the EU "20th century" trade policy

The trade component of the *Commitment to Development Index* gives 75% weight to tariffs (taxes) on imports, and subsidies for domestic farmers, which stimulate overproduction and depress world prices, and 25% weight to administrative barriers to imports of goods and services applied by rich countries. This is assessed by 3 indicators from the Doing Business Database compiled by the World Bank – documents required for imports, time and costs to import a container – and by the Services Trade Restrictiveness Index also by the World Bank. Previously (until 2012) the methodology included the share of imports from developing countries in order to account for unmeasured (tacit) barriers. The 2013 methodology weights tariffs by the GDP/capita of the exporter in order to mirror the poverty level of the trading partners (tariffs against the poorest countries are penalized more). This brings the trade component of the CDI into line with the migration and aid components, which also weight flows in this way.

Tariff data are derived from the Market Access Map (MAcMap) data set of the Centre d'Etudes Prospectives et d'Informations Internationales (CEPII) [Bouët et al. 2004]. As the MAcMap data are not updated often, the 2007 data are used for the 2013 CDI. The data on production by country and product come from the GTAP 6.0 database. Estimates of the import tax equivalents of the quotas are taken from Francois and Spinanger (2004)—separately for textiles and apparel—and chained with the corresponding tariff levels. Estimates for farm subsidies are provided by the OECD's Total Support Estimate (TSE) subsidy data.

These tariff-equivalent data deserve an important remark. Although they represent an outstanding effort in terms of information, they are calculated for a relatively small number of aggregated sectors. The aggregation

procedure has an intrinsic bias under-estimating the level of protection because it swamps the few tariff lines with high tariffs into the many tariff lines with small or moderate tariffs. Weighting tariffs by trade flows introduce another source of under-estimate because low tariffs are weighted by unconstrained imports whereas high tariffs are weighted by repressed imports. These two biases are important because they don't have the same impact on rich and poor countries:

- The wider the range of goods that a country exports to the EU, the less severe this bias may be. This is the case of the large and rich economies.
- The narrower the range of products that a country exports to the EU, the more severe this bias can be. This is more likely to be the case of small and poor countries which often export a few labor-intensive products which are the ones that rich countries tend to protect more.

EU's performance in the 2013 Commitment to Development Index

In 2013, EU[1] scored average on trade policy (Table 1), ranking behind New Zealand, Australia, United States and Canada.

Table 1. CDI Trade score and ranking

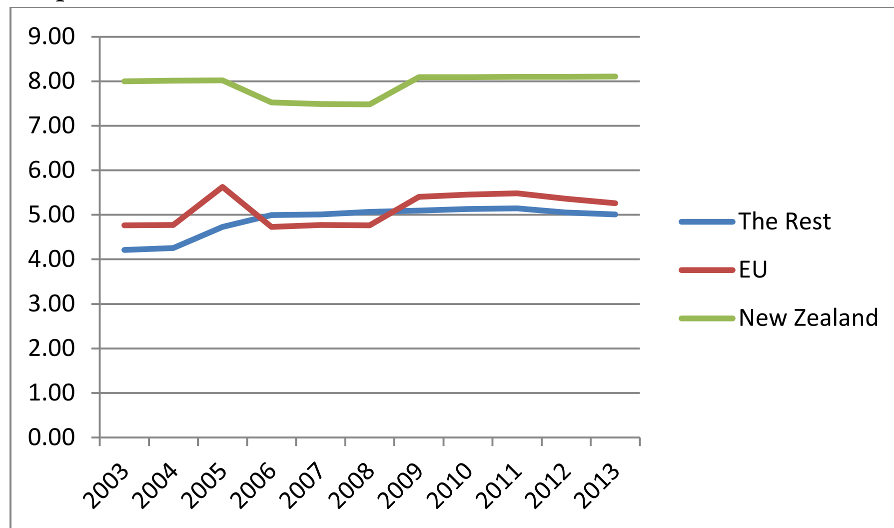
Country/region	Trade score
New Zealand	8.10
Australia	7.13
United States	7.09
Canada	6.05
EU	5.27
Switzerland	1.80
Japan	1.60
Norway	1.20
South Korea	-1.21

Source: CGD 2013

Graph 1 shows the performance of EU[2] and the Rest[3]. EU policies have not become significantly more open to trade with developing countries, but this is also true for the rest of the developed countries included in the Index. Overall New Zealand has the most development-friendly trade policy. New Zealand significantly reduced, or abolished most import tariffs as well as farming subsidies more than 20 years ago (between 1984 and 1993); currently the highest tariff (14.6% ad valorem tariff-equivalents) applies to wearing apparel (compared to EU's 135.7% on sugar cane and beet).

[1] Consolidated score of EU countries included in the Index.
[2] The consolidated EU score does not include 5 EU countries which were only included in the Index in 2012.
[3] The Rest: consolidated score of Australia, Canada, Japan, New Zealand, South Korea, and the United States.

Graph 1. EU CDI Trade Performance



Source: CGD 2013

The 21st century trade barriers: the EUMS trade policies

As said above, the 21st century trade barriers can be classified in five main groups: barriers to crossing the borders, technical norms on products, market regulations in services, restrictions to access to public procurement markets and restrictions to foreign direct investment. As there is no available systematic information on intra-EU and extra-EU barriers on norms and foreign direct investment by EUMS, what follows focuses on the three other barriers.

Trade costs

The TCM leaves largely aside the enforcement dimension of common rules, leaving the impression that the EU is an homogeneous entity. Small differences among EUMS in the TCM are explained by relatively minor differences in agricultural subsidies and by the export structures of the developing countries. But, enforcing is another matter. For instance, the EU tariffs may be the same for all the EUMS, but they are enforced by EUMS National Customs. Customs procedures or more broadly "red tape" (often put under the 21st century heading of trade facilitation) vary significantly among the EUMS. The Doing Business "Trading across borders" indicator gives a sense of these border barriers by measuring the time and cost (excluding tariffs) associated with exporting and importing by ocean transport, and the number of documents necessary to complete the transaction [Doing Business 2013].[4] Although these two elements are limited, they provide an interesting light on the vast differences among EUMS.

[4] The indicator covers documentation requirements and procedures at customs and other regulatory agencies as well as at the port. It also covers logistical aspects, including the time and cost of inland transport between the largest business city and the main port used by traders. These are key dimensions of the ease of trading—the more time-consuming and costly it is to export or import, the more difficult it is for local companies to be competitive and to reach international markets

Table 2 summarizes this information for the year 2013. It provides two main lessons:

- The huge heterogeneity among the EUMS, with Sweden ranked 6th and Slovakia 108th (out of a total of 183 countries in the Doing Business database).
- The cumulative GDP shows that imports from the rest of the world have a relatively easy access to only fifty percent of the EU GDP—the cumulated GDP of the EUMS pertaining to the top 20 countries in the world ranking of this Doing Business indicator. It is worth stressing that the poor countries with historical links to France, Belgium, Portugal and Spain have their traditional export markets restrained by notable to substantial red tape.

In short, developing countries—and poor countries above all—have no "equal" access to the EU markets as the whole.

Table 2. Trade costs by EUMS, world ranks in 2013

Country	Trading Across Borders Rank	Cummulative EU (27) GDP (%)	Country	Trading Across Borders Rank	Cummulative EU (27) GDP (%)
Sweden	6	3.2	Spain	32	63.2
Estonia	7	3.3	Malta	34	63.2
Denmark	8	5.2	France	36	79.0
Finland	9	6.7	Luxembourg	41	79.3
Netherlands	13	11.3	Slovenia	48	79.6
Germany	14	32.0	Poland	49	82.5
Lithuania	15	32.2	Greece	52	84.0
United Kingdom	16	47.1	Italy	56	96.2
Latvia	17	47.2	Czech Republic	68	97.4
Austria	19	49.6	Hungary	70	98.1
Ireland	20	50.9	Romania	76	99.1
Portugal	25	52.2	Bulgaria	79	99.4
Cyprus	27	52.3	Slovak Republic	108	100.0
Belgium	28	55.2			

Sources: Doing Business, 2013. IMF 2013 Note: the indicator is the world ranks of EUMS.

Market regulations in services

Despite the roughly 600+ EU "Directives" which constitute the EU body of law (known as *acquis communautaire*) in services, barriers still vary a lot among EUMS. The wider available information is provided by the OECD "product market regulation" indicators [OECD 2014] which are available only for the EUMS members of the OECD. These indexes are available for professional services, retail services and seven network services (electricity, gas, telecom, post, rail, airlines and road).

It may be argued that poor countries are unlikely to be very active exporters in this range of services. However, this broad remark requires a caveat: there is a continuous flow of skilled and semi-skilled services providers (for example in professional services or telecom-based advertising services) originating from poor countries into the EUMS—in particular from those with traditional links with European powers sharing the same language: sub-Saharan Africa into France and Belgium, South Asia into Britain, etc.

Table 3 shows that, once again, the variance among EUMS restrictiveness in services is huge—the Internal Market is still a target to achieve, not an achieved goal. Poor countries are users of most of these services for selling their products. As they tend to produce smaller quantities than developed countries, the fact that the EU services markets are fragmented means that they face extra-costs, compared to exporters from developed countries.

Table 3. Regulatory barriers in services by EUMS, 2013

Country	Profession. services	Retail	Electricity	Gas	Telecom	Post	Rail	Airlines	Road	Average	GDP share in EU27 (%)
Austria	2.49	2.40	1.75	2.24	1.02	1.70	2.63	0.00	1.50	1.75	2.4
Belgium	2.35	4.06	1.84	1.68	1.57	1.67	3.75	0.12	2.25	2.14	2.9
Britain	0.88	1.79	1.17	0.00	0.27	2.33	0.25	0.00	1.50	0.91	14.8
Czech Rep.	2.36	1.56	2.39	1.88	0.45	2.00	2.25	2.87	2.25	2.00	1.2
Denmark	0.82	1.69	2.49	2.63	0.47	1.53	2.25	0.43	1.50	1.53	1.9
Estonia	1.79	1.50	3.23	2.16	0.58	3.00	2.63	2.92	2.25	2.23	0.1
Finland	0.62	2.86	1.66	3.67	0.56	3.33	4.38	1.68	1.50	2.25	1.5
France	2.34	2.57	3.19	2.52	0.96	2.67	3.75	0.48	3.00	2.39	15.7
Germany	2.62	2.71	1.17	1.17	1.13	1.67	2.25	0.00	1.50	1.58	20.7
Greece	2.35	2.55	2.83	3.77	0.66	2.87	4.50	0.00	3.25	2.53	1.5
Hungary	2.86	2.06	1.59	1.75	0.65	3.00	3.13	0.00	2.00	1.89	0.8
Ireland	1.25	1.53	2.19	2.96	0.50	2.67	4.88	0.75	1.50	2.03	1.3
Italy	2.10	3.15	1.45	1.86	0.42	3.33	2.75	0.00	4.25	2.15	12.1
Netherlands	1.23	0.91	2.00	2.31	0.45	0.67	3.13	0.18	2.25	1.46	4.6
Portugal	2.55	1.83	1.02	1.43	0.65	3.00	3.88	3.00	2.25	2.18	1.3
Slovak Rep.	2.33	2.31	2.15	2.64	1.15	2.33	3.13	0.00	1.50	1.95	0.6
Slovenia	2.56	0.63	2.63	2.79	1.98	3.33	3.75	3.55	2.25	2.61	0.3
Spain	2.06	2.88	0.87	1.14	0.56	2.33	4.00	0.00	2.25	1.79	8.0
Sweden	0.55	0.60	2.30	1.69	1.30	2.63	3.00	0.64	1.50	1.58	3.2
Highest	2.86	4.06	3.23	3.77	1.98	3.33	4.88	3.55	4.25	3.55	--
Average	1.90	2.08	2.00	2.12	0.81	2.43	3.17	0.87	2.12	1.94	--
Lowest	0.55	0.60	0.87	0.00	0.27	0.67	0.25	0.00	1.50	0.52	--

Source: OECD, Product Market Regulations [2014]. Notes: The indicators shown are expressed on a scale 0 (open market) to 6 (closed market). [a] Accounting, Architect, Engineer, Legal. The "large" EUMS are Britain, France, Germany, Italy and Spain. [b] Austria, Germany, Greece, Hungary, Slovakia. [b] Austria, Denmark, Finland, Germany, Ireland, Slovakia, Sweden and Britain.

Public procurement

The openness of public procurement markets is often based on some measures of the commitments taken in the Government Procurement Agreement signed at the end of the Uruguay Round (1995). Such a measure is unsatisfactory for several reasons [Messerlin and Miroudot 2012]. A much better measure is provided by the National Accounts which collect data on public demand that covers every cent spent by a public administration or an entity considered as a public agency—including utility sector bodies—on domestic and foreign goods and services, as well as data on the imports by these institutions. Based on these data, it is possible to calculate an "openness ratio" defined as the share of public imports in public demand. In the EUMS case, only extra-EU imports should be included (intra-EU public imports relate to the state of the EU Internal Market).

Such a broad definition is particularly interesting from a poor country perspective because it takes into account all the goods and services purchased by public entities (that is, not only the bundle of relatively

specific goods and services associated to the large public procurement contracts which tend to involve mostly firms from industrial countries).

Table 4 shows the openness ratios for all the EUMS. Contrary to the trading across borders indicator, differences in these openness ratios have—at least partly—a sound economic reason, namely the size of the economy: a small country with a narrow productive base is likely to have recourse to more foreign providers for its public procurement activities than a large country. For this reason, Table 4 does not present the cumulated EU GDP share for this indicator, but the individual GDP share by EUMS. If one takes into account the vastly different size of the EUMS, Table 4 suggests three lessons:

- As most of the small EUMS have few historical ties with the poor countries in the world, developing countries may have hard time to benefit from the relatively higher openness of the small EUMS.
- most medium-size EUMS do not offer generous opportunities to the poor countries: Belgium (one of the EUMS with strong historical ties to developing countries) is one of the closest EUMS, and Sweden (traditionally one of the most open EUMS) is also relatively closed.
- large EUMS show clear differences in terms of openness. France (the EUMS with the most important ties to many poor countries) is more closed than Germany and Britain (the other EUMS with important ties to many poor countries), and than probably Italy and Spain.

Table 4. Regulatory barriers in public procurement by EUMS, 2008

EUMS	Extra-EU public imports to public demand (%)	GDP share in EU27 (2013)	EUMS	Extra-EU public imports to public demand (%)	GDP share in EU27 (2013)
Cyprus	13.7	0.1	Ireland	5.7	1.3
Slovak Rep.	10.4	0.6	Portugal	5.2	1.3
Romania	9.9	1.0	Poland	5.1	3.0
Bulgaria	9.6	0.3	Finland	5.0	1.5
Hungary	8.7	0.8	Slovenia	5.0	0.3
Czech Rep.	8.4	1.2	Germany	4.9	20.7
Estonia	7.3	0.1	Austria	4.5	2.4
Malta	7.2	0.1	Luxembourg	4.5	0.3
Netherlands	7.0	4.6	France	3.8	15.7
Lithuania	6.8	0.3	Sweden	3.6	3.2
Latvia	6.3	0.2	Denmark	3.4	1.9
Italy	6.0	12.1	Belgium	3.4	2.9
Britain	5.8	14.8	Greece	3.3	1.5
Spain	5.8	8.0			

Source: Timmer ed. [2012]. Authors' calculations.

Last but not least, comparing EUMS and non-EU countries strongly suggests that EUMS are not more open (to say the least) than non-EU countries (once adjusted for size). In particular, EUMS public procurement markets are less open than those of China, Japan, Korea and Taiwan.

The two faces of the EU

Though all the information gathered above cannot be aggregated in one indicator, it is worth trying to summarize this information by ranking the EUMS for the three main domains: trade costs, services and

public procurement. Table 5 presents these rankings by calculating two averages: the average of the ranks in trading costs and services alone (average 1), and the average of the three indicators (average 2). This approach seems reasonable because barriers in public procurement are sensitive to the size of the economy, as mentioned above.

Table 5 lists the EUMS by decreasing ranking according to average 1. It suggests a relatively clear split of the EU into two groups: the EUMS on the left side are more open and/or better governed than those on the right side. This division generates two groups of EUMS in terms of GDP: the total GDP of the left column EUMS is roughly 60 percent of the EU27 GDP. In short, the balance between the relatively open and well regulated EUMS and those relatively closed and with a restrictive implementation of the regulations is relatively even.

Table 5. The two faces of the EU, 2013

EUMS	Trading costs	Services	Public procur.	Averages		EUMS	Trading costs	Services	Public procur.	Averages	
				1	2					1	2
Sweden	1	4	24	3	10	Belgium	14	12	26	13	17
Denmark	3	3	25	3	10	Malta	16		8	16	12
Netherlands	5	2	9	4	5	Hungary	24	8	5	16	12
Britain	8	1	13	5	7	Czech Rep.	23	10	6	17	13
Germany	6	5	20	6	10	France	17	17	23	17	19
Lithuania	7		10	7	9	Italy	22	13	12	18	16
Austria	10	6	21	8	12	Slovak Rep.	27	9	2	18	13
Estonia	2	15	7	9	8	Luxembourg	18		22	18	20
Latvia	9		11	9	10	Slovenia	19	19	19	19	19
Finland	4	16	18	10	13	Greece	21	18	27	20	22
Spain	15	7	14	11	12	Poland	20		17	20	19
Ireland	11	11	15	11	12	Romania	25		3	25	14
Cyprus	13		1	13	7	Bulgaria	26		4	26	15
Portugal	12	14	16	13	14						

Sources: Tables 1 to 3.

The other interesting result is that the "seniority" in the accession to the EU is not a good indicator of the ranking in 2013. The more open/better regulated EUMS include the Baltic countries which acceded to the EU in 2004, while the less open/worse regulated EUMS include three to four (Belgium being at the margin) founding EUMS.

3. Trade Policy and Development in Europe

In order to get majorities among still largely sovereign EUMS, the EU trade policy is often a compromise among the many concerns channeled by the EUMS—trade issues of course, but also foreign policy, environmental and social policies, etc. Concerns are also tabled by vested interests of all kinds (businesses, NGOs). Some of them are backed by EUMS, while others are supported by the Commission which makes an heavy use of NGOs as supporters of its own agenda. This complex process has two main consequences for the poor EU trade partners.

- Foreign policy concerns induce the EU to shape its trade policy on the basis of geographical and/or historical criteria rather than on an economic basis. As a result, the EU trade policy does not look in a systemic way at the developing/poor countries as such—the two exceptions (GSP and EBA) do not play such a crucial role. Rather, the EU trade policy is developed on a geo-historical-political basis. As a result, it is largely organized by specific regions: the developing and poor countries in the African, Caribbean and Pacific regions, those in the Southern Mediterranean region, those in Latin America or in East Asia, etc.
- At the same time, the EU is obsessed by combining inclusiveness (all the issues brought by the EUMS, NGOs, vested interests, etc.) of and consistency among all its concerns. In particular, it insists on including provisions on environmental and labor norms in trade agreements, and to couple trade agreements with "Framework Agreements" imposing, among other provisions, provisions on democracy and rule of the law [Ahnlid 2012].

All these features make the EU trade policy extremely complex, costly and ultimately development-unfriendly. Things are not made simpler by the fact that many EU-PTA provisions are not legally binding (contrary to the US PTAs where most trade provisions are legally binding), but expressed in terms of intent and behavior. The recent years suggest that such non-legal provisions are often a source of disputes on the exact reach of such provisions.

This section is organized as follows. First, it presents an overview of the EU PTAs. Then, it focuses on the Economic Partnership Agreements (hereafter EPA) with the African, Caribbean and Pacific (ACPs) which include many LDCs. Lastly, it presents the recent Commission's Communication on trade and development published in 2012 which is supposed to give guidelines on the future EU trade and development policies.

An overview of the EU PTAs

Table 6 presents the PTAs concluded by the EU as reported by the WTO (for comparison sake, it also shows the US PTAs). The first striking result is the huge gap between the large number of PTAs and the small GDP of most of the partners concerned—hence the small aggregate size of the GDP of all the EU partners. In other words, most of these PTAs do not represent substantial opportunities for EU firms in terms of additional markets for their goods and services. If one excludes the negotiations with Mercosur, it is only recently that the EU is negotiating PTAs with large economies—the PTA with Korea marking the key shift in this aspect (it is labelled as the first trade agreement of the new generation). This conclusion is reinforced when one considers the "depth" of these PTAs: those concluded before the mid-2000s are unlikely to be "deep" with many bound commitments. All these observations suggest the economic "futility" of the EU PTA policy until the very late 2000s.

Such a limited expected impact on the EU-wide economy means that, prior to the last year of the Korea-EU PTA negotiations (roughly 2010), PTAs did not get a lot of attention in the EU beyond DG-Trade at the Commission. Until then, most of the EUMS have tended to leave unchecked what the DG-Trade was doing. The Korea-EU PTA has been the turning point: for the first time in EU trade policy, the trading partner's economy (Korea) looked big enough to get the attention of the top EUMS decision-makers (Presidents, Chancellors, Prime Ministers) during the final months of the negotiations.

The conclusion about the "futility" of the EU PTA policy before 2010 deserves, however, a caveat. If the current PTAs have no global impact on the EU-wide economy, they have—possibly strong—effects on narrow ranges of products, as best illustrated by bananas with Latin American countries, beef with Argentine, Brazil or Canada, wine with Chile, etc. Indeed, PTAs with small trading partners can (often do) trigger the energy of very narrow EU vested offensive (EU exports) and defensive (EU imports) interests. EU offensive interests are dominated by large EU firms while EU defensive interests often consist in small enterprises. This aspect has generated a deep impression in the European public opinion that trade policy is captured by vested interests—not a good thing for trade policy as a whole.

Table 6. Concluded EU PTAs, 2014

US	EU	Countries	GDP 2012 Bio USD	US	EU	Countries	GDP 2012 Bio USD
1988	2014	Canada	1821.4		2008	Côte d'Ivoire	24.7
2003	2002	Chile	268.2		2008	Dominica	0.5
2006	2012	Colombia	369.8		2001	Egypt	257.3
2004	2008	Costa Rica	45.2		1996	Faeroe Islands	..
2004	2008	Dominican Rep.	59.0		2008	Grenada	0.8
2004	2008	El Salvador	23.9		2008	Guyana	2.9
2004	2008	Guatemala	50.5		1992	Iceland	13.7
2004	2008	Honduras	18.5		2008	Jamaica	14.8
1985	1995	Israel	258.2		2002	Lebanon	42.9
2000	1997	Jordan	31.2		1992	Liechtenstein	..
2007	2010	Korea, Rep.	1129.6		2001	Macedonia, FYR	9.6
1992	2000	Mexico	1178.0		2009	Madagascar	10.0
2004	1996	Morocco	96.0		2009	Mauritius	10.5
2004	2008	Nicaragua	10.5		2007	Montenegro	4.2
2007	2008	Panama	36.3		1992	Norway	499.7
2006	2012	Peru	197.0		2009	Papua New Guinea	15.7
2004		Australia	1520.6		2008	Serbia	37.5
2005		Bahrain	29.0		2009	Seychelles	1.0
2006		Oman	70.0		1999	South Africa	384.3
2003		Singapore	274.7		2008	St. Kitts and Nevis	0.7
	2006	Albania	13.1		2008	St. Lucia	1.2
	2002	Algeria	208.0		2008	St. Vincent/Grenad	0.7
	1991	Andorra	..		2008	Suriname	4.7
	2008	Antigua Barbuda	1.2		1972	Switzerland	632.2
	2008	Bahamas	8.1		1977	Syria	73.7
	2008	Barbados	3.7		2008	Trinidad Tobago	24.0
	2008	Belize	1.4		1995	Tunisia	45.7
	2008	Bosnia Herzeg.	17.0		1995	Turkey	789.3
	2009	Cameroon	25.0		2009	Zimbabwe	10.8

Sources: WTO [2014] and World Bank [2014].

Such a broad context explains why the EU PTA policy has not been development-friendly, despite the rhetoric. In particular, it has tended:

- To open the EU partners' markets for the benefits of the few and large EU offensive interests which tend to concentrate on WTO+ issues—investment, public procurement and intellectual property rights in particular. All these issues share one feature: PTA provisions will aim at increasing the market power of EU firms in the EU partners' markets, not really at opening them *erga omnes*.
- To keep as closed as possible the EU markets where aggressive defensive vested interests are operating in sectors (agriculture, clothing and light manufacturing) where poor countries have their comparative advantages.
- Last but not least, to consist in "exporting" EU regulations—from technical norms to competition policy to regulations in services markets to environmental or social regulations, etc. This approach has been done without any attempt to assess the intrinsic costs and benefits of the EU regulations—they have been simply assumed to be the best in the world—and without any consideration for their costs once implemented in poor countries.

It is worth noting that these features of the EU trade policy are shared by the US PTA policy. In fact, it seems fair to see the EU as a "free-rider" on the US PTA policy—as best illustrated by the EU-Korea PTA which has taken on board many concessions that the US already got from Korea.

These three targets help to understand why the EU PTAs follow a relatively standard format and show so few efforts to fit the very different level of development of the EU partners—hence imposing on the EU partners commitments too complex for their stage of development.

Table 7 illustrates this point by splitting all the chapters included in selected EU PTAs of the two last decades into two groups:

- The "core" chapters which, if treated with all the necessary care, can play an important role in the growth of the EU trading partners (intellectual property rights or capital movement have been listed in this core group despite the many concerns that these topics can rightly raise from the economic point of view),
- The "periphery" chapters are only vaguely related to trade issues, but reflect the many and heterogeneous concerns channeled by the EU vested business and NGOs interests. This list is very long. It includes some topics that are development unfriendly or that, if they are important for a development perspective, cannot be correctly addressed in a PTA (or more generally in a trade context) or that need to be developed by domestic processes to make them effective. For instance, the introduction of a competition policy in a small country is very:
    - unlikely to deal with more than a few cases (as it has happened in the Baltic EUMS)
    - unlikely to get rulings with substantial economic benefits if the most-favored-nation tariffs of the EU partners remain very dispersed and/or high and,
    - likely to cost in litigation fees (often grabbed by EU/US law firms) and, even worse, to end up in corruption when the EU partner has a weak legal regime.

Table 7 also provides an interesting sense of the legal bindingness of EU PTAs. It presents the Horn-Mavroidis-Sapir's [2009] assessment in a way easier to read: grade 1 is granted to provisions legally binding, grade 0.5 to provisions not-legally binding, and grade 0 to provisions not present in the PTA at stake. Table 7 provides two observations:

- The core chapters show very little variance in terms of legal bindingness between the EU PTAs with highly developed countries (for instance EEA's Norway and Switzerland) and those with low-income developing or poor countries (Mediterranean countries or Cariforum).
- By contrast, the periphery chapters show a huge variance, with often—but not always—low legal binding for the developing countries.

Table 7. Provisions and legal binding in selected EU PTAs

The core provisions	EEA	Turkey	Avg-Mediter.	Africa	America	Cariforum
FTA industrial goods	1.0	1.0	1.0	1.0	1.0	1.0
FTA agricultural goods	1.0	1.0	1.0	1.0	1.0	1.0
Export taxes						
Customs administration	1.0	1.0	1.0	1.0	0.8	1.0
Antidumping, Safeguard	1.0	1.0	1.0	1.0	0.9	0.8
Countervailing measures	1.0	1.0	1.0	1.0	0.9	0.8
Trade in services	1.0				1.0	1.0
Trade-related investment						
Investment	1.0		0.5	0.5	1.0	1.0
Movement of capital	1.0		1.0	1.0	0.9	1.0
Sanitary & phytosanitary	1.0		0.2		0.9	1.0
Technical barriers to trade	1.0	1.0	0.5	0.5	1.0	1.0
Public procurement	1.0	0.5	0.4	0.5	1.0	1.0
Trade-related IP	1.0	1.0	1.0	1.0	0.9	1.0
Intellectual Property Rights	1.0	1.0	1.0	0.5	0.8	1.0
State trading enterprises	1.0	1.0	1.0		0.9	1.0
State aid	1.0	1.0	1.0	1.0	0.4	1.0
Competition policy	1.0	1.0	1.0	1.0	0.9	1.0
Environmental laws	1.0		0.5	0.5	0.5	1.0
Financial assistance	1.0		0.5	1.0	0.3	0.5

The periphery provisions	EEA	Turkey	Avg-Mediter.	Africa	America	Cariforum
Anti-corruption						
Consumer protection	1.0		0.1		0.5	
Data protection	1.0			0.5	0.5	1.0
Labour market regulations	1.0					1.0
Agriculture			0.5	0.5	0.5	
Approximation of legislation	1.0		0.5			
Audiovisual	1.0		0.2	0.5	0.5	
Civil protection	1.0					
Innovation policies						0.5
Cultural cooperation	1.0		0.5	0.5	0.5	
Economic policy dialogue	1.0				0.5	
Education and training	1.0		0.4		0.5	
Energy	1.0		0.5	0.5	0.5	0.5
Health	1.0			0.5	0.3	
Human rights			0.5	0.5	0.5	0.5
Illegal immigration			0.2		0.3	
Illicit drugs			0.5	0.5	0.3	
Industrial cooperation			0.5	0.5	0.5	
Information society			0.1	0.5	0.5	
Mining				0.5	0.5	
Money laundering			0.5	0.5	0.3	
Nuclear safety						
Political dialogue			0.5	0.5	0.5	
Public administration	1.0			0.5	0.5	
Regional cooperation			0.5		0.5	0.5
Research and technology	1.0		0.4	0.5	0.5	0.5
Small and medium enterprise	1.0			0.5	0.5	
Social matters	1.0		0.8	0.5	0.5	0.5
Statistics	1.0		0.4	0.5	0.5	
Taxation						
Terrorism	1.0		0.1		0.3	
Visa and asylum			0.1			

Source: Horn, Mavroidis and Sapir [2009].

The Economic Partnership Agreements with the African-Caribbean-Pacific Countries

Since 2007, the EU is negotiating "Economic Partnership Agreements" (EPAs) with 79 African, Caribbean and Pacific countries (ACPs). As of January 2014, only 21 EPAs have been concluded. But, it is hard to give an accurate information on how many EPAs are truly implemented. For instance, there are persistent rumors on difficulties for enforcing the EU-Cariforum agreement, the EPA flagship. From a development perspective, this situation—writing laws, but not implementing them—can only amplify the domestic problems that many ACPs face in terms of governance quality. Indeed, the "technique" consisting in implementing some EPAs on the basis of an "interim" agreement pending the final agreement is not healthy

when applied systematically and for a long period—if only because it is a clear contradiction of the democratic principles (treaties require ratification by sovereign Parliaments) listed in the "Framework Agreements" imposed by the EU on its PTA partners.

Why such a poor result in terms of EPAs? There are good economic reasons—leaving aside the inability of the ACP countries to make a clear choice in terms of trade liberalization. The EPAs have intrinsic flaws very detrimental to ACP development. Far to liberalize the ACPs in a pro-development way, they are doomed to generate a "fake and destructive" liberalization combined with a "fiscal crunch" in the ACPs.

First, EPAs can only deliver a "fake" liberalization. The highly protected ACP sectors will continue to be fully protected vis-à-vis both the EU and non-EU producers because EPAs allow the ACPs to keep their current tariffs on imports from the EU for roughly 20 per cent of their tariff lines. The currently highly protected ACP sectors are likely to be the main beneficiaries of this provision, and this percentage is high enough to allow ACP countries to protect almost all their existing domestic productions (since the productive basis of the ACPs is very limited). As ACP producers will remain protected with respect to the EU *and* to the rest of the world, they will have no incentive to become more efficient (to cut costs and prices) and/or more innovative (to widen their range of products). As a result, ACPs domestic labor and capital will stay in the currently protected sectors if they are already used in these sectors or they will go to these sectors if they are used in the production of goods or services exposed to foreign competition (see below). Last but not least, in such circumstances, ACP consumers have no reason to support the EPAs.

Second, EPAs will also deliver a "destructive" liberalization. The "liberalized" ACP sectors will be subjected to full competition from EU competitors because the EPAs require the ACPs to eliminate their current tariffs on EU imports for the remaining roughly 80 per cent tariff lines. EU firms will make hard for potential ACP producers to enter these markets, even if ACP countries have the appropriate comparative advantages. ACP firms already operating in these sectors will have hard time to survive, if only because ACPs domestic labor and capital will not go to these potentially competitive sectors which are unlikely to provide attractive wages or capital returns, compared to those paid by the ACP highly protected markets. Such a situation may create severe long term economic costs for the ACPs: elimination of the existing domestic producers possibly combined with high prices that the EU firms could charge in the ACP markets protected by (high) tariffs on imports from non-EC origin. Last but not least, note that once again, in such circumstances, ACP consumers have no reason to provide political support to the EPAs: they will pay rents (possibly as high as the high ACP tariffs on non-EU products) to EU firms, and they will feel exploited by EU firms.

"Fiscal crunch" should be expected from eliminating ACP tariffs on imports from the EU on 80 per cent of tariff lines. This elimination is expected to have huge adverse implications for many ACP government budgets which are highly dependent from tariffs (up to 30+ percent of public revenues are trade-related). The EU claims that it is ready to provide appropriate financial compensations for such fiscal losses. However, the EU claim is not a binding and permanent commitment—contrary to the tariff cuts agreed by ACPs in the EPA context—and the mounting budgetary constraints in most EUMS during the ongoing (probably long) crisis raise doubts on this commitment. It is important to stress that this commitment is typical of one of the most crucial and frequent weaknesses of the EU trade policy—namely, to try to correct an initial mistake (the way EPAs deal with trade liberalization) by an allegedly "compensating" policy or instrument. It often happens that this compensating policy not only does not compensate the effects of the

initial mistake, but that it creates further distortions. For instance, EU increased aid could be used for goals with little connection to economic growth.

Last but not least, combining all these consequences make more difficult a deeper regional integration among ACPS. In fact, existing EPAs have even the capacity to fuel corruption in ACP economies—particularly when EPAs signed by two ACP countries with common borders include very different deals. This is likely to be the case if, for instance, a concession is extracted by the EU from Ghana but not from Ivory Coast (and vice-versa) or if there are too many differences in the progressive tariff cuts, as in the EU-Cariforum case.

To summarize, the EPAs as currently designed are likely to be structurally unable to support ACPs domestic pro-growth reform agendas. In particular, they will make it very difficult for ACP countries to reach what is probably their most crucial development goal—economic diversification in terms of produced and exported goods or services. In this context, they are likely to trigger strong resentments among the ACP consumers—be ACP firms or people.

All these intrinsic flaws of the EPAs are well known, and they are partly realized by the parties. The sad news is that, so far, no action has been taken to fix them by the Commission, or by the EUMS, or by the ACP governments which have remained largely inactive.

The Commission's Communication on Trade and Development (January 2012)

In January 2012, the Commission released a Communication stating its views on the EU trade-growth-development policy nexus for the coming decade [European Commission 2012]. The Communication is a follow up of a 2002 text, and it may be replaced by another Communication from the new Commission.

The Communication is typical of EU documents which pile up many issues without true prioritization, hence end up with often contradictory economic and non-economic goals and constraints. It is organized in a complicated three steps framework: priorities for the decade, recommendations supporting those priorities, initiatives supporting those recommendations. It deals with an extremely wide range of issues: from rules of origin to small and medium enterprises to regional integration to aid effectiveness to "sustainable products" to "equipping people for change" (meaning education, labor rights and social protection) to "corporate social responsibility" to "democracy and shared prosperity", etc. What follows focuses on what seems the most important points of the Communication.

When discussing priorities, the Communication calls for no less than six priorities:

- *for more differentiation among the developing countries in order to focus on the poorest,*
- *to intensify efforts to look beyond tariffs and reduce the remaining barriers to trade,*
- *to improve the way [EU] trade and development instruments deliver and enhance their complementarity,*
- *for our partners to undertake economic reforms necessary to a sustained trade- and investment-led growth,*
- *for other developed and emerging economies to match our initiatives to open markets to countries most in need,*
- *for emerging economies to take up more global responsibilities for opening their markets to least developed countries.*

Ironically, many of these priorities do not take into account the EU situation: they insist on economic reforms by EU trade partners at a time when Eurozone EUMS are unable to do so, and they request EU

partners to open more their markets when it is far to be proven that the EU is the most open market (see above).

That said, the key focus in the Communication seems to be the need "better" to take into account the differences among the developing countries. It argues that there is a necessity to increase differentiation among the way the EU treats its trading partners by broadening the range of EU trade measures: "*emerging economies and poorer ones have different potentials, needs and objectives, thus requiring a different policy approach*".

At a first glance, such a differentiation approach looks attractive. But, it raises two crucial questions that the Communication does not evoke.

First, it ignores the key lesson to be drawn from the most successful integration into the world economy during the three last decades—China's. After twenty years of a progressive but steady unilateral liberalization, China ratified a Protocol of Accession to the WTO which imposed on her much deeper and wider concessions than the Protocols of the other developing WTO members. In short, China did not really benefit from substantial differentiation granted by its WTO partners. China's success shows that a sound agenda of progressive domestic reforms, the ability to deliver this agenda and the view of trade policy as a support to this agenda have been much more powerful drivers of economic development than the differentiation by the trade policy of its trading partners.

Second, a differentiation approach opens the door to a potentially unlimited list of different trade and non-trade measures and rules, each of them being tailor-made to every developing country—ultimately making the playing field "less level". And the more numerous such measures, the harder it will be for the EU to integrate them into a consistent EU trade policy. Indeed, the Communication itself shows the limits of the EU complicated trade policy, as illustrated by the additional preferences granted to Pakistan following the floods of July 2010. In this case, the Communication:

- First acknowledges that these additional preferences did "*not trigger a swift enough reaction*". This suggests that what was at stake was Pakistan's capacity to mobilize other productions for exports, that is, typically domestic supply problems.
- Then mentions that these additional preferences "*caused concerns as to the possible trade diversion impact on other poor economies*" (without noting that Bangladesh's access to duty-free-quota-free provision is somewhat at the detriment of Pakistan which is almost as poor as Bangladesh). This remark underlines the risks of multiplying trade measures in an integrated world economy in which every measure can have unintended and substantial effects on other measures.

The Communication goes on listing "recommendations" and "initiatives". These lists are very long and their elements are so heterogeneous that one wonders about their rationale and limits. These lists do not raise (and answer) the key following questions:

- How can one praise the EPAs with the ACPs when these EPAs are attracting such a low level of support and a strong resistance the ACP countries?
- How can one say that environmental reforms are highly valued in the poor countries when poor people tend visibly to focus on growth at any environmental cost for reasons easy to understand?
- How can one say that there is a robust link between trade openness and democratic reforms, with an apparent focus on the causality from trade openness to democracy?

As a result, the Communication recommendations give a very mixed message. Some topics should easily gather a wide consensus: trade facilitation, progressive opening of services markets, for instance. But other components—social and environmental regulations, intellectual property rights (IPRs), competition policy, to quote a few of them—would deserve a much more careful justification of their presence in the Communication. For instance, what is the value of an initiative "*facilitating the use of intellectual property tools* (what is the difference between tools and rights?) *by small producers and farmers*"? Indeed, what is the value of a strict regime of geographical indications (GIs)? GIs have been available to French wine producers for decades. They have been very successful in some wine yards (Champagne) and disappointing in others (Bordeaux). As both vineyards rely on small farmers, success and failure depends on something else—ultimately, the existence of a robust industrial structure for Champagne, and a much weaker one in the Bordeaux case.

To sum up, the Communication leaves a very uneasy feeling: it illustrates how trade policy can be a very attractive set of instruments because these instruments (a tariff or a quota) are perceived as powerful, but it does not pay enough attention to the expected and/or possibly unintended costs of these instruments.

4. Policy Recommendations

As said in the introduction, it would be pure blindness to focus on recommendations involving WTO negotiations. The WTO has been condemned to a long period of "crossing the desert" by the US pivoting to the Trans-Pacific Partnership, and by the inability or unwillingness of the other large WTO members to convince the US to come back at the WTO table of negotiations. For this reason, what follows focuses on recommendations for a development-friendly EU trade policy in a context entirely dominated by the PTAs.

In such a difficult context, making the EU trade policy more development-friendly should meet four main criteria: simplicity, uniformity, progressivity and institutional support.

- A trade policy as simple as possible:
    - Design the same policy towards all the LDCs, independently of historical and geopolitical links: no difference between ACP and non-ACP LDCs; cumulation of rules of origin for all of them; same basic mechanisms when defining "progressivity". Of course, this option will be seen as an "erosion" of their preferences by ACP countries. But, the EU should convince these ACPs that it is better to face competition from the non-ACP LDCs sooner than later.
    - Always use price-based trade instruments (tariffs, taxes) and avoid quantitative-based instruments (quotas, tariff-quotas, etc.) when protective measures could be needed (for instance in the context of contingent protection).
    - Avoid to compensate a distortive trade instrument by another instrument (including aid) without ensuring that the net outcome is positive and that there are no unintended effects.
- A trade policy as uniform as possible:
    - Make a thorough review of the EPA in order to make them more development-friendly. In particular, insist on the fact that EPA EU-partners should adopt as moderate and uniform as possible tariffs (rather than eliminating tariffs on a limited number of products) since partners' uniform tariffs are one of the most powerful incentives to diversify their productions exports.
    - Don't request most-favored nation treatment from LDCs negotiating PTAs among themselves.
- A trade policy as progressive as possible in order not to over-burden the EU partners' "governance" capacity:
    - Pay utmost attention to the fact that the regulatory elements included in the PTAs between the EU and its partners should be implemented only when they are compatible with the EU partner's level of development in order not to hurt its growth.
    - Define progressivity in economic terms, such as reaching an agreed level of GDP per capita, rather than on the basis of other criteria (for instance, an arbitrary number of years).
    - Pay attention to the needs and interests of the developing countries (in particular, LDCs) when negotiating PTAs with other developed countries. This recommendation may be the most important one in the current context of the TTIP negotiations between the US and the EU. This is because TTIP has an enormous capacity to be detrimental to LDCs and to some developing countries (particularly, but not only, in agriculture and labor-intensive industrial goods).
- A trade policy offering innovative transitional "institutional support" for facilitating the enforcement of norms and regulations. For instance, make possible the use of certification bodies of certain EU Member States by LDCs' exporters if these LDCs have not the means to establish well functioning bodies.

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