The Development Dimension or Disillusion?

The EU’s Development Policy Goals and the Economic Partnership Agreements

The EU and the ACP countries aim to conclude the Economic Partnership Agreements (EPAs) by the end of December 2007. All parties agree that these trading arrangements are meant to be first and foremost “development instruments”. However, their positions differ greatly on how the EPAs will impact on the ultimate goal of poverty reduction. In this policy note Marikki Stocchetti addresses the key issues of this disagreement.

1. EPAs: One Tool, Two Targets

The ongoing negotiations on the EU-ACP Economic Partnership Agreements (EPAs) demonstrate once again that setting goals for development policy is a much easier task than agreeing on the actual means of achieving them. According to the European Commission (EC), the EPAs are meant to constitute an integral part of the implementation of the European Union (EU) – African-Caribbean-Pacific (ACP) Cotonou Partnership Agreement (2000). They are regarded as integral because of their anticipated positive impact on development through trade in ACP regions and countries.

In particular, these “economic partnerships” should facilitate the achievement of the overarching goal of the EU’s development policy and the Cotonou Agreement – poverty reduction, and eventually poverty eradication – in a way which is both consistent with sustainable development and the gradual integration of the ACP countries into the world economy.

According to Article 1 of the Cotonou Agreement, the pursuit of these objectives should be conducted through an integrated approach which simultaneously takes into account political, economic, social, cultural and environmental aspects of development. Moreover, all the parties “shall refrain from any measures liable to jeopardise these objectives.” These terms were also to apply to The New Trade Arrangements section of the Cotonou Agreement, which provides the basis for the current EPA negotiations.

The conventional explanation given by those in favour of EPAs – and the EU Commission in particular – stresses that the EU-ACP economic relations need to be changed for two main reasons. Firstly, according to the Commission, there is a mutual recognition by the main Parties that “existing trade preferences have not promoted the sustainable development or integration into the world economy” (COM 2005d: 3). Secondly, and perhaps more acutely for the EU, the current trade preferences are inconsistent with the prevailing international trade rules as defined by the World Trade Organization (WTO) and therefore need to be changed. The fact that the non-reciprocity aspect of the Cotonou Agreement is not in line with the WTO’s so-called “enabling clause” is considered particularly prob-

1. The ACP constitutes 79 member states, of which 48 are from Sub-Saharan Africa, 16 Caribbean and 15 Pacific states.
2. See the Cotonou Agreement, Article 1 Objectives of the partnership and European Consensus on Development: para. 5.
3. In essence, EPAs are described as trade agreements which are being negotiated between the European Commission (EC) and six ACP regional groups, which do not however coincide with the existing regional bodies of regional integration. Four out of six of the EPA configurations are Sub-Saharan African where the need for poverty reduction is particularly pressing. The negotiations are to be concluded by the end of this year, as stipulated in the Cotonou Agreement. Once (and if) in place, the six separate EPA agreements are expected to replace the unilateral, non-reciprocal trade preferences that provided the ACP countries with so-called preferential market access to EU under the successive Lomé Conventions.

*) This is the first issue in a series of Policy Notes on Trade initiated by the Research Unit at the Nordic Africa Institute. The purpose of these notes is to set out a baseline assessment of the main issues faced by African countries in the current regional and global trade negotiations. For more information about these Policy Notes on Trade and the Global Trade Programme contact the Programme Coordinator, Yenkong Ngangjoh Hoda (yenkong.ngangjoh-hoda@nai.uu.se) or the Assistant to the Programme, Tania Berger (tania.berger@nai.uu.se).

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2. The Conflicting Goals of the Cotonou Agreement

The debate around EPAs demonstrates that there is a fundamental conflict between the parties on the very purpose of the EPA agreements both with respect to the objective of poverty reduction and that of integration into the world economy. Regarding sustainable development, the question appears even more complicated. When we start to look at the reasons for the conflicting perspectives on EPAs, we may first look at the nature of the international agreements the Cotonou Agreement refers to. These include the pledges of the major UN Conventions and first among these the preamble lists the Rio Declarations on sustainable development. On the other hand, the Cotonou Agreement also refers to the trade liberalization commitments made within the framework of the World Trade Organization. However, the issue of the compatibility of the agendas of these two international organizations has been itself a subject of a wide policy debate.

Regarding the Rio agenda on sustainable development, it is important to note for present purposes that the thinking behind “sustainable development” is largely based on Brundtland’s notions of sustainable development as defined in the Our Common Future report by the World Commission on Environment and Development (WCED). At the core of the report is the idea of balance through integration of the economic, social and environmental aspects of development, which is needed to tackle poverty and inequality within the limits of the world’s ecological system. Moreover, the report presents as an article of faith that the world’s ecological system and the world economy are interlocked, and that this urgently requires policy integration of the three main aspects of development as well as corresponding institutional change in order to implement this integration. It is important to note that at the level of policy statements adopted around the UN Summits on Sustainable Development, the EU’s understanding of the concept basis rests largely on this Brundtland’s formulation.

In contrast to the UN organizations and agreements, the WTO operates with binding rules on global trade liberalization which gives to the commitments made at the WTO unique legal standing in comparison to UN-led pledges to pursue development targets. However, in terms of broad development goals, the agendas of these two organizations tend to increasingly overlap al-

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Note: EPA groups consist of six ACP regions: CEMAC plus Sao Tome and Principe (Central Africa), ECOWAS plus Mauritania (West Africa), COMESA minus Egypt and Libya (East and Southern Africa), SADC plus Angola, Mozambique and Tanzania (Southern Africa), CARIFORUM (Caribbean) and Pacific ACP States.
through their original mandates remain unaltered. This was particularly the situation after the launch of the WTO Doha Development Round Agenda in 2001, which was followed by the UN Johannesburg Summit on Sustainable Development in 2002 where participants agreed on promoting “mutual supportiveness” between sustainable development and trade liberalization (Ayre & Callway 2005: 15–16).

Interestingly, in addition to the WTO made commitments, the EU has also committed itself to advance poverty reduction and sustainable development with legal obligations based on the Treaty Establishing the European Union (Article 130u) as well as on the Treaty of Amsterdam (Article 177). These commitments are further safeguarded by the principle of policy coherence (Article 130v/Article 178) that should ensure that the Community takes into account development policy objectives in the policies it implements which are likely to affect developing countries. These commitments have been reinforced by the EU’s involvement in the implementation of the UN Millennium Declaration and the Millennium Development Goals (MDGs) as well as OECD’s originated policy coherence for development approach.

The discussions over policy coherence for development have largely revolved around the observation that development aid and development co-operation in their traditional forms will not lead to poverty reduction if other policy sectors simultaneously contradict the pursuit of development policy objectives. To certain extend, the EU has adopted this approach in its historic joint European Consensus on Development Statement (2005) by the Council, the Parliament and the European Commission. In this context the EU has restated the coherence principle of the Maastricht and Amsterdam Treaties ensuring that it shall take into account and make sure that all implemented EU policies support development objectives (par.9).

Against this institutional background, the case of EU’s Trade policy and Development policy is particularly intriguing. Both are policies of the same political system and legal entity but they are implemented by different agencies within the European Commission. Namely, the policy formulation and implementation in these domains are conducted by DG Trade and DG Development which have very diverse missions and policy goals. If we look at the Economic Partnership Agreements in this institutional setting, we may note that the issues dealt in the proposed EPAs cover both domains. From the point of view of the Cotonou Agreement, its objectives as well as development aid provisions the EPAs situate in the area of EU development policy but in terms of their form as free trade agreements they are regarded as an issue of EU Trade policy and thus competence of DG Trade.

3. Trade and Development: Competing Goals or Compromised Coherence?

While the EU development policy targets are set outside Europe, the trade policy objective is first and foremost to build a “Global Europe” by reinforcing EU’s own competitiveness, growth and job creation in the global economic system which according to the DG Trade are essential conditions for economic prosperity, social justice and sustainable development within Europe (Global Europe 2006:2). The advancement of EU’s trade agenda is to be done by “opening markets were European companies can compete abroad while rejecting protectionism at home and promoting fair trade abroad”. The latter “fair trade” policy task is to be conducted through the WTO-led multilateral trading system (Ibid.: 6–7). Moreover, the EU’s trade strategy text states that the EU’s trade policy also seeks to contribute to development goals and maintains that coherence in this respect is vital to strengthening the EU’s global role (Ibid.:2). Again, how this coherence that is to strengthen EU’s role also contributes to development objectives is left unspecified.

However, what is clearly advocated in the new trade strategy text is that EU’s trade policy model is not only suitable to serve EU’s interests, but it is also assumed that liberalization and increased competition in the multilateral trading system work also for the EU’s developing country partners regardless of the huge differences in the size and stage of development of the economies as well as the societies as a whole. Therefore, DG Trade states further that progressive trade opening is an important source of productivity gains, growth, job creation, which are seen as essential factors in reducing poverty and promoting development (Ibid.: 6). These assumed positive economic impacts are also what the DG Trade regards as the very essence of the EPAs. However, preconditions for this kind of economic development are not discussed.

On the other hand, in the discourse of EU’s development policy documents the role of development aid, essential and necessary though it is seen to be, it is also regarded as insufficient to achieve poverty reduction, let alone poverty eradication. This emphasis is particularly strong in the Commission’s official communications regarding the EU’s contribution to the UN Millennium Development Goals. Therefore, in these documents the EU development policy argumentation increasingly builds on assumed positive synergies between development policy and trade (COM 2005b: 9). However, at the same time, the EU states that its non-aid policies, especially in areas such as trade, agriculture, fisheries, food safety, transport and energy, have all a direct bearing on developing countries’ ability to generate domestic economic growth, which in turn is at the root of any sustained progress towards poverty.

5. The specific MDG and coherence documents include COM 2005a, 2005b, and 2005c 132, 133 and 134.
reduction (COM 2005a: 7). The extent to which this direct bearing is perceived as policy incoherence is less explicit.

However, in order to advance policy coherence for development in the trade area both at the multilateral WTO and bilateral EPA levels, the EU development policy documents list issues that the EU promises to tackle. These issues include, for instance, support measures to EU agriculture (e.g. export subsidies and price-support), market access for agriculture, industrial goods as well as services, elimination of tariffs and tariff peaks, antidumping and fishery subsidies (COM 2005a: 5-8). In sum, the EU refers only to measures that are thought to be trade-distorting by the WTO. To a certain extent these measures – if truly put in place – can also have a positive development impact. However, it is important to note that the EU is considering the interrelationship between trade and development exclusively in terms of trade liberalization. As, for instance, Khor (2006) and Goodison (2007) point out, mere removal of “trade-distorting” effects to advance trade liberalization is not enough by itself to guarantee a positive impact on development and poverty reduction.6

From the point of view of development goals, this trade-led conception decisively limits the EU’s quest for policy coherence with respect to its development policy objectives. Therefore the adequacy of the EU’s approach to the promotion of poverty reduction and sustainable development is called into question. The extent to which policy coherence for development is defined is governed by the WTO rules, rather than development objectives. However, the EU discourse presents WTO compliance as part of the process of advancing development goals. Drawing from this observation on the interrelationship between trade and development, I will now assess the EC’s position at the EPA negotiations and the construction of the development dimension into the proposed Economic Partnership Agreements.

4. The EC Position and the Limits of the Development Dimension

The complex process of negotiating EPAs began in 2002 with the Council providing the Commission’s DG Trade with a mandate to negotiate on behalf of the EU while on the ACP side guidelines for negotiations were agreed by ACP Trade and Finance Ministers.7 The first round of actual negotiations took place between the EU and all the ACP countries in order to agree on issues of interest to all regions, followed by the current round between the EU and regional groups to address thousands of regionally specific issues and commitments. The aim was to assess progress and problems on these fronts at a mid-term review in September 2006. However, difficulties were experienced in translating the spirit and principles of the Cotonou Agreement to the negotiation process in the first round, and as a result no formal ACP-EU agreement was reached. In the following paragraphs, I will briefly discuss the main elements that define the EC-EPA negotiations stance with respect to the expected “development dimension”.

In the case of the Economic Partnership Agreement, the EC enters into negotiations with certain aims, desires and beliefs based on EC officials’ understanding of the nature of the social change the economic partnership agreements should bring about, the contexts in which they are to be applied and why a change is needed. Here the EC’s general conception of the development dimension is defined by identifying three aspects of the stance taken by the EC in negotiations:

a) The EC’s dominant paradigm which defines its general attitude to the subject under discussions;

b) The EC’s primary goal, which is what it wants to gain from the negotiations, and in the achievement of which it may make concessions on other topics; and

c) The EC’s minimum acceptable compromise, which is its “bottom line” and the ultimate limit on its freedom to negotiate.8

At the level of broad guidelines, the EC’s dominant paradigm can be inferred from its Trade and Development Policy Statements, as discussed above. The EU expresses strong support for trade liberalization and increased competition which it regards as beneficial both for its own trade and development policy interests and thus also for the ACP partners. Reciprocity per se is not considered problematic if market liberalization takes place gradually. The rationale for reciprocity rests on the principle that the liberalization of ACP markets towards the EU is expected to increase competition within ACP economies, reduce prices for consumers, and stimulate investment as well as transfer of technology and knowledge (Bilal & Rampa 2006: 41). It follows from this that the EC is also willing to include so-called “New Trade Issues” of competition, investment and public procurement into the EPA agreements which the EC sees as reinforcing elements in respect

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6. This is particularly the case with EU’s agricultural subsidies which the EU has been able maintain high by changing their form from price-support to WTO compatible income-support that both Khor 2006 and Goodison 2007 discuss and claim that EU’s reforms have been insufficient to remove the negative implications of EU’s agricultural policy on development country producers.

7. The so-called “Joint Roadmap” documents between the EC and each regional grouping define the organization of the parties for the negotiations. The EC organization is based on the Treaty Establishing the European Community. The European Commission negotiates on behalf of the EU, represented by the Commissioner of Trade, on the ministerial level, and a senior official of DG Trade on the ambassadorial level. Preparations on the technical level will be co-ordinated by the geographical responsible unit in DG Trade.

8. See and compare with Grainger 2004, 283-292 on positions on Climate Change negotiations.
of the EPA packages. However, the phase by which the gradual progress should take place is directed by the WTO rules and not by development needs of a specific ACP country or region. To discuss and assess the development benchmarks in terms of advancement of poverty reduction goal is not within EC trade competence and is therefore to be excluded from the actual negotiations. However, according to some key officials of the Commission, the EU itself does not have any offensive interests vested in EPAs that would conflict with the poverty reduction goal (Wunenburger, 2006; Manservisi, 2006 and Dihm, 2007). Even the suggested inclusion of the New Trade Issues is compatible both with the EC’s Global Europe Trade Agenda and necessary for the EU’s development-through-trade approach. In the reform of EU-ACP economic relations, the EU will assist ACP countries in respect of adjustment costs and capacity-building. But negotiating on additional aid and cooperation are regarded as matters belonging to the shared competence between DG Development and Member States and should therefore be left aside from the agenda for negotiations free trade. Consequently development issues form a parallel agenda but are not directly integrated into the free trade discussions. In order for EPAs to deliver their expected development benefits, they should form part of the economic and development policy reform of each ACP State. In sum, EPAs are seen as the main instrument of economic and trade cooperation, closely linked to the political and development finance aspects of the Cotonou agreement (COM 2005d;3; COM 2003).

**The EC’s primary goal** in relation to the EPAs is to conclude Free Trade Agreements and ensure WTO compatibility in line with its Trade Policy. The EC can, however, consider making concessions regarding the New Trade Issues. In addition, what the EC promises to ACP countries as part of the Free Trade Agreement includes increased market access, gradual and asymmetric trade liberalization to protect fragile sectors, removal of non-tariff barriers and support trade facilitation and deeper regional integration. It also considers reforming measures relating to export and price-support subsidies as required under the WTO rules.

**The EC’s bottom line** can be described in two words: WTO compliance. This implies a reciprocal free trade agreement to open the ACP markets to the minimum level necessary to secure WTO-compatible economic relations. However, the EC’s interpretation of the WTO rules is very strict and it has not showed a willingness to explore alternatives to reciprocal free trade agreements.

### 5. EC’s Development Dimension – ACP’s Development Disillusion

In order to draw the limits which define the EC’s understanding of the development dimension, we may look at three factors. Firstly, the EC assumes that development impact will follow the adoption of the trade liberalization paradigm in the ACP countries. Secondly, it assumes that this impact will be supported by development measures that will be negotiated outside the free trade agenda by DG Development which will consist of traditional elements of EU-ACP economic partnership – namely development co-operation programmes and (possibly some additional) aid to increase ACP countries’ trading capacity as well as to reduce the costs of the adjustment periods. However, aid and development cooperation at the Community and country levels should be formulated in line with EPAs and not vice versa. Finally and most importantly, the EC’s position still lacks considerations that would imply changes in the prevailing EU trade liberalization paradigm. It appears as if development – the goal – is meant to adjust to the EPA instrument and not vice versa.

However, even though the development agenda should be closely linked to trade policy, the EC does not consider policy integration necessary. This is because at the level of policy statement discourses, the EC believes that the interrelationship between its development and trade policy objectives is harmonious as such. This approach is further enhanced by the EC notion of policy coherence for development that the EU is willing to pursue within the limits of WTO-directed trade liberalization in order to profit from what the EC envisions as synergies of trade and development policy. As a result, there is no need to call for policy integration between trade and development policies which would imply fundamental changes in both policies. Instead, the EU aims – first of all – at WTO compliance and the reduction of “trade-distortion”, rather than at policy coherence based on its development policy objectives. In this respect, the EC has made a decisive choice to prioritize its commitments made within the WTO framework over the UN-led processes to poverty reduction and sustainable development. Of course, this is not surprising if we compare the status of the UN declarations with legally binding WTO rules. However, given that the EU has made binding commitments to poverty reduction and sustainable development in its founding treaty as well as in the Cotonou Agreement, the issue is much more complicated. I would argue that this prioritization of one goal to the detriment of the others raises fundamental questions of governance within the EU policy-making process.

In the light of the EU discourse, the EPAs seem more appropriate to support the EC’s trade policy agenda than the original development goals. Therefore the EU’s understanding of the development dimension is more likely to lead to disillusion with development goals than to advance the development policy objectives. However, the promotion of a paradigm change is a matter of political will. Unfortunately, at present such is insufficiently strong due to the prevailing consensus on development and trade goals within the EC. Lastly, and most importantly, the legitimacy of the EC’s pos-
tion in relation to EPAs is strongly questioned by the ACP partners of the Cotonou Partnership Agreement. This has led to a paradoxical situation which I regard as being the core of the EPA conflict. The tool that was intended to facilitate the achievement of the development goals is regarded as contradictory to the very purpose of the ACP-EU Partnership and the Cotonou Agreement by a number of legitimate parties both in the ACP states and in Europe. This is a contradiction that the European Union must face.

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