

NEW THINKING ON TRADE POLICY AND DEVELOPMENT

THE RELATIONSHIP BETWEEN MULTILATERAL NEGOTIATIONS
AND REGIONAL OR BILATERAL NEGOTIATIONS



Socialist Group in the
European Parliament

The Socialist Group has decided to launch a series of reflections on a new thinking on trade policy and development. We have opened this up to contributions from external experts from different backgrounds, contrasting their views with those of our Group Members in the hope of bringing new ideas into the world of trade politics.

For the first of these reflections, we have chosen as a theme **the relationship between multilateral negotiations and regional or bilateral negotiations**. With the European Commission's recent Communication *Global Europe: competing in the world* signalling a new push towards regional and bilateral Free Trade Agreements, this theme has special salience now for Europeans.

We share the conviction that a review of European trade strategy is needed, particularly in view of the crisis in the current WTO round of negotiations. But this review must not call into question the basic principles and objectives of the European Union's trade policy. The EU must continue to promote a regulated multilateral system, which gives priority to development and incorporates non-trade dimensions (environment, health, poverty eradication, social standards, and respect of decent work norms). The conclusion of the Doha round must remain the objective of the Union. The Socialist Group also wishes that the negotiation of future regional and bilateral agreements fully involves the European Parliament. The question at stake is transparency and democratic control over trade negotiations which have very important impact for our societies and those of our partners. That's why we also intend to involve closely the social partners and civil society in our reflection on the economic, social and environmental dimensions of this strategy.

In this pamphlet are contributions from Erika Mann (PES Group Coordinator of the European Parliament Committee on International Trade), Sandra Polaski (Senior Researcher, Carnegie Endowment for International Peace) and Ricardo Meléndez-Ortiz (Executive Director, International Centre for Trade and Sustainable Development – ICTSD) which will help launch our reflections on relations between multilateralism and bilateralism. We invite everyone with an interest in these issues to post their comments: pse-newtradethinking@europarl.europa.eu

Our next two pamphlets will deal with the themes “Sovereignty and trade policy” and “Employment and Trade”.

Harlem Désir

*Vice-President of the Socialist Group
in the European Parliament*

Multilateralism and Bilateralism in Trade Policy

Erika Mann

PES Group Coordinator of the European
Parliament Committee on International Trade

Regional integration is the backbone of the European Union. In the immediate post-war years, the Community's founding member states first banded together with the aim of economic integration - as the forerunner, they hoped, of political union. One of their main goals was to eventually harmonise their domestic and external policies, including those dealing with trade.

The trade aspect has been an essential component of what has ultimately evolved into a comprehensive political confederation. It has further served to maintain and develop the EU's external relations with third countries. The Amsterdam European Council in June 1997 laid the basis of the EU's policy on FTAs (Free Trade Areas). Broad criteria for future agreements were also set. Beyond compatibility with WTO rules and support for the multilateral trading system, agreements are expected to achieve most, if not all, EU economic objectives and political goals. They must not have a negative influence on the EU's other external commitments and common policies. These prerequisites were applied in the preparatory work that preceded the launch of the FTA negotiations with Mexico, Chile and MERCOSUR.

Today, without saying so explicitly, the EU views trade agreements as a means of spreading its ideas and influence, although EU Trade Commissioner Peter Mandelson, whenever asked, refuses to talk about a geopolitical component in his trade strategy. The Commission and Member States need to be aware that such an approach, while not necessarily bad, is difficult to apply. Great care has to be taken to ensure that potential partners do not perceive the EU's intentions as overbearing.

The non-trade objectives of the EU have evolved over the years. Indeed, as a reflection of the growing complexity of external relations, each recent FTA has had its own objectives, not always coherent with the purposes of other FTA agreements. Historic political and economic links and strategic interests cannot be overlooked either. The EU's pursuit of FTA agreements with Latin American countries clearly demonstrates the weight of history. Yet it would be helpful to view this in a larger context: EU-Latin American negotiations also reflect strong common political interests and EU support for democratisation in the region. The desire to strengthen democratisation also underpins the EU's negotiations with its Mediterranean partners.

The EU is slowly moving away from establishing traditional FTAs with its main trading partners. Its current trade strategy goes beyond border measures and encompasses elements usually associated with “deep integration”, such as efforts to reach convergence on regulatory regimes. It also seeks to extend the traditional scope of such agreements by embracing new rules and disciplines – from services to investment and competition. In short, the EU seeks to go beyond the simple removal of tariffs to the reduction and eventual elimination of non-tariff barriers, to achieve the potential gains of Regional Trade Agreements (RTAs). In the absence of a multilateral agreement, RTAs can fill an important gap. They provide an outlet for smaller and consequently less differentiated groups of countries to go beyond what is possible multilaterally. The depth or possibility of trade liberalisation can be expanded as RTAs provide an opportunity to experiment with various rules that can be assimilated later into the broader market system. This kind of “policy space” is much more common in FTAs and is used by the EU in the case of its “human rights clause” in FTAs and all kinds of Association and Partnership Agreements. Something similar features in the US-Jordan treaty, which includes a clause on human rights.

Article XXIV of GATT allows for the exceptional establishment of preferential regional trade initiatives, providing they meet the following criteria: other WTO members are notified of the details, duties and other trade barriers should be reduced or removed on “substantially all” sectors of trade in the group, and barriers to trade with non-signatories should not be higher than they were previously.

General Agreements on Trade in Services (GATS) lays down somewhat similar criteria for trade in services in an RTA. So while rules of origin become a necessary condition under which goods and services qualify for preferential access within an RTA, the RTA is expected to complement and not threaten the multilateral trading system. During the Uruguay Round, the “Understanding on the Interpretation of Article XXIV of the GATT 1994” was established to further introduce certain interpretations and guidelines for dealing with some of the ambiguities contained in the GATT.

RTAs are not uniform. The coverage and depth of preferential treatment varies from one agreement to another. In WTO terminology, RTAs encompass three types of agreements: partial scope agreements, customs unions and free trade area agreements. The first of these promotes unilateral – i.e. non-reciprocal – preferences. Customs unions involve the establishment of common external tariffs on imports from non-members and lead to the convergence of trade policy. Such common external trade regimes can take years to negotiate and have often resulted in lengthy implementation. FTAs, by moving faster than the global trading system and sharing its goals, may represent a means of strengthening the multilateral liberalisation process in the long-term. On the other hand, however, the impact of fundamental changes in the geographical scale and policy scope of the trade process, together with a lack of flexible accession provision, undermine the ability of FTAs to contribute to global trade growth. Growing complexity due to overlapping RTA memberships further magnifies the negative aspects of FTAs.

In short, FTAs can make positive contributions to global trade liberalisation, as long as they comply fully with WTO rules and are genuinely comprehensive and trade-liberalising. In fact, through one RTA process to the next, rules are clarified, and benchmarks for standards are set. RTAs that fall short of these prerequisites threaten the integrity of the multilateral system by incapacitating the WTO's fundamental principle of non-discrimination.

Presently, the EU's over-riding priority is to ensure the successful and timely conclusion of the Doha Development Agenda negotiations. But Peter Mandelson is willing to take new initiatives and risks that could detract to a certain degree from his ability to achieve that goal. The Commission states that it does not wish to signal a lack of interest or confidence in the multilateral trading system, nor undermine the ability of other countries to participate fully in the DDA. As Pascal Lamy, Director General of the WTO, said in a speech in Brussels in January 2007, the multilateral trading system should continue to improve the bedrock of trade rules upon which bilateral or regional agreements can further build when the conditions are right.

Peter Mandelson's new strategy "Global Europe – competing in the world" is not only a "contribution to the EU's growth and job strategy", as he called it, but much more a desire to be part of the global race for FTAs. His logic follows Thomas Friedman's mantra that the world is flat. In the Commissioner's own words, "The changes in the global economic and political order taking place today are as significant as the end of the Cold War. One was symbolised by the fall of the Berlin Wall. The other, I suspect, will have as its icon the skylines of Shanghai, Mumbai and Kuala Lumpur."¹

Peter Mandelson wants to lead the EU into the new globalised world order, where the old comfortable world of industrialised countries versus developing countries no longer exists. And once again in world history, China is seen as the incalculable factor, fully exploiting the traditional rules to achieve unprecedented growth. And with many new Mittals² emerging, the new guys on the block are as likely to hail from India, China or Brazil as from our biggest traditional trading partners, and the world of the European Union becomes more uncertain. In Mandelson's words again, "We have known global economic integration before. We have seen economies transformed into giant global export machines - Britain, Germany, the US. But this change is different in its pace, depth and breadth. And its potential to shape politics, societies and our environment is entirely new. We know the answers. We know Europe faces a race not to the bottom, but to the top."³

At the top of Peter Mandelson's list of countries leading the race into the unknown are many Asian countries. This is not without irony. Already in 2002 the European Parliament recommended paying closer attention to Asia, beginning with an FTA agreement with Singapore:

"Conversely, despite a strong economic presence in the Asia-Pacific region, there are no agreements between the EU and countries in the region, prompting some to question whether the EU has any strategic interest in the region. Despite

¹ Churchill Lecture, Federal Foreign Office, Berlin, 18 September 2006.

² Lakshmi Mittal is the chairman and chief executive of Arcelor Mittal, the Indian based steel company which recently became the world's number one steel producer, with 330000 employees in more than 60 countries.

³ Ibid.

strong economic relations, the EU does not have a single FTA in Asia. An FTA with an Asian country will anchor the presence of the EU in the region. Regional leaders in ASEAN have indicated that agreements such as the one Singapore has proposed to the EU would not endanger regional relations. Rather, as long as the agreement offers scope for replication and extension within the ASEAN region, it could boost the momentum of the AFTA. From the strategic viewpoint, the commercial presence of the EU would also counterbalance the influence/dominance of China and of the United States.”⁴

This report was adopted by the European Parliament after extensive debate in committee. Pascal Lamy, who was then Commissioner for Trade, simply said no, he would never be willing to negotiate more than was already on the agenda. Voilà, it takes only deadlock in the WTO round, other countries (primarily the US) to negotiate FTAs, and of course a new Commissioner, and everything becomes possible.

And it is not without significance that at a time when the European Union wants to follow the United States in its approach to expanding its trade relations through FTAs worldwide, the November Congressional elections in the US have changed the picture once again. Uncertainties are not limited to Congress alone, they can also be found in the European Parliament. This is because on FTAs the EP will be formally out of the picture. Its assent is not required - as it is for Association Agreements. And yet Peter Mandelson's proposal is the most ambitious change in trade strategy the European Union is undertaking. “Global Europe” recommends a patchwork of geopolitically steered trade relations.

Despite misgivings about the democratic deficit with which this policy shift will be introduced, I welcome the fact that Peter Mandelson has ended the period of silence, when everything was possible in the European Union but never talked about in a strategic sense. He argues that nothing is really new and that the EU is only returning to its previous strategies. Strategic Partnership, Association Agreements and modern-style FTAs have been with us for quite a while. Not wrong, but not fully right either. I hesitate to agree. What seemed logical some years ago is now somehow out of date. The world is more complex and more uncertain and the show has moved on from a classic concern with tariffs and non-tariff-barriers. There is a new kind of ideological protectionism emerging, embedded in values that are dividing the world. Lest I be misunderstood, values are essential for a society but I do not think they should determine trade relationships between countries.

Trade Policy and Development: The Role of Multilateralism versus Bilateralism

Sandra Polaski

Senior Researcher

Carnegie Endowment for International Peace

The decision by the PES Group to rethink the relationship between trade and development, multilateralism and bilateralism is timely and necessary. The Group should develop an analysis of how trade is actually working for the EU and for developing countries. It should articulate clear goals that it seeks to achieve through trade policy. As a contribution to that process, this essay proposes a new analytical framework for thinking about trade and development and then draws practical implications for evaluating multilateral versus bilateral approaches by the European Union.

A new global context for trade and development

The global economy has changed dramatically in the last fifteen years. Most significantly, the end of the Cold War led to the integration of China, Russia, India and other countries into a single global production system. This added enormous productive capacity and a low-paid labor force of two billion people, doubling the global pool of workers. This integration has meant that many developing countries, unable to compete with the emerging giants, are no longer automatic beneficiaries of trade liberalization.⁵ Africa's declining share of world trade over the last decade is a notable example.

The PES Group should begin with a recognition that trade will not always foster development and alleviate poverty.⁶ The impact of trade agreements on individual developing countries, and the distribution of gains and losses within those countries, will require much more rigorous analysis to determine whether such agreements will foster progress or setbacks.⁷

It is already recognized that many low-income countries need significant assistance to build their supply capacity and infrastructure if they are to achieve any benefit from

⁵ I outline the differential impact of plausible Doha Round proposals on different developing countries in the study *Winners and Losers: Impact of the Doha Round on Developing Countries*, Carnegie Endowment for International Peace, 2006. Available at: www.CarnegieEndowment.org/trade.

⁶ The World Bank, the strongest proponent of the view that trade will help all developing countries, has recently been criticized in an independent audit for selective reading of its own research and modeling to ignore the negative outcomes. See *"An Evaluation of World Bank Research, 1998-2005"*, available at: <http://econ.worldbank.org>.

⁷ The sustainability impact assessments have been a good first step but should be expanded to include employment and poverty impacts, to be made more rigorous and to be more closely linked to actual trade policy formation by the Commission.

trade opening. However greater attention must also be paid to those who will lose from trade. The adjustment process in poor countries is daunting, given poor households' lack of resources to weather a loss of employment or reduction in income. In many low income countries, livelihoods are overwhelmingly concentrated in a single sector, agriculture, and alternative income opportunities badly lag the number of job seekers. Displacement of additional workers and farmers can plunge such countries into deeper poverty with no clear exit. More gradual and country-specific sequencing and timing of trade liberalization and much more generous aid for capacity building and adjustment costs will be required to avoid setbacks and achieve growth.

Implications for multilateral and bilateral trade strategy

Assuming that the PES Group will continue to adhere to a strongly internationalist and pro-development orientation, it should evaluate whether multilateralism or bilateralism is most likely to be successful in achieving its objectives under current global economic conditions. It should also recognize that bilateralism is not an easier route to accomplish desired trade objectives than multilateralism. The following offers a preliminary discussion of the choices in this analytical and value context.

1. The multilateral trading system continues to be the most promising venue for broad-based and non-discriminatory trade liberalization and should continue to be the preference of the PES Group. Providing equal opportunities for trade will enable both EU members and others to exploit their comparative advantages in ways that are not narrowed or distorted by bilateral and regional preferences. At the same time, unilateral preferences for developing countries should be improved to offset the relative disadvantages of low-income and vulnerable economies that cannot compete with exports from more advanced developing countries. Less developed countries may also be unable to absorb increased imports from the EU. The proposed Economic Partnership Agreements should be reexamined from this perspective. Many of the countries involved would fare better under improved preference programs than under EPAs.

Unilateral preferences are permissible and do not damage the principle of multilateralism if available to all similarly situated countries. Coverage of the Everything-But-Arms Initiative for the least developed countries should be extended and rules of origin should be relaxed. The GSP+ system, which grants additional market access to all developing countries that ratify core international labor and environmental conventions, should be deepened by offering qualifying countries even larger reductions in tariffs, perhaps to zero. The countries should be granted the benefits only if they implement conventions into law and enforce the laws in practice, thus actually improving distribution of benefits to workers and protecting the environment as envisioned. Competent international bodies have recently gained experience in monitoring compliance with laws and conventions and should be invited to play a prominent role.⁸ With the current global labor surplus, measures that provide positive incentives and reward good labor practices are particularly helpful.

⁸ For example, the International Labor Organization developed the capacity to monitor export factories in Cambodia and publishes the results in a fully transparent manner. This should be replicated.

2. With respect to bilateral and regional free trade agreements, the PES Group should require rigorous evaluation of likely impacts on EU members, the chosen partners and third countries that might suffer erosion of preferences. There may be cases in which the interests of the EU and potential partners could be served through well-tailored bilateral FTAs without harming others, but they are likely to be rare. The Commission's current list of criteria for choosing FTA partners will inevitably exclude the least developed and marginalized countries and the implications of this spillover effect must be addressed before bilateralism is pursued.

It has already been noted that bilateral and regional negotiations will not necessarily be easier than multilateral negotiations. Consider the EU negotiations with Mercosur, which have been stalled for two years over the Latin American countries' insistence on more access to EU agricultural markets. The EU cannot alter the Common Agricultural Program for a single trading bloc. The implications for African, Asian and other countries of improved agricultural market access for Mercosur members are not yet understood. The proposed FTA with ASEAN countries will be very problematic, given the highly diverse levels of development among countries in that bloc. An FTA with India will be more difficult still: India will seek substantial opening of EU markets for services and manufactures such as apparel and automobiles, while resisting expanded access by the EU to its agricultural market, where 58 percent of its population earns its livelihood.

The difficulties of bilateral negotiations and the risk of unintended side effects suggest that the PES Group adopt a cautious and case-by-case approach to any proposed negotiations.



What matters to Europe, matters to the world

Ricardo Meléndez-Ortiz

Chief Executive, International Centre for Trade and Sustainable Development (ICTSD)

The Doha Round of multilateral trade negotiations is adrift. As 2007 starts, a way out of the impasse in the talks appears little closer than it did in July 2006, when WTO Director-General Pascal Lamy suspended discussions in the hopes of goading recalcitrant governments into making necessary advances.

The current round is proving harder to conclude than any previous cycle of trade negotiations – even the eight-year Uruguay Round that dramatically expanded the reach of the global trade-rules system, and made its structures binding. This in turn has provoked a crisis of faith in countries' ability to craft regulatory frameworks for trade and economic engagement at a worldwide level.

Governments had already been stepping up their pursuit of bilateral trade and investment agreements. Every stumble of the WTO talks has given them another justification to continue. The most famous example came in the aftermath of the failed Cancun ministerial conference in 2003, when US Trade Representative Robert Zoellick vowed that Washington would pursue bilateral trade agreements with willing 'can-do' countries.

Even the European Union, long the world's commercial superpower most committed to multilateral institutions, is worried that it will be 'left out' of the search for new markets if it does not explore the bilateral route. Thus, when introducing the paper outlining Europe's new trade policy in October 2006, Commissioner Peter Mandelson took pains to stress that "Doha first has never meant Doha alone."

The Commission's new strategy, "Global Europe: Competing in the world," called for the EU to pursue open markets elsewhere in the world by negotiating bilateral trade accords with major economic blocs, such as Korea, ASEAN, India, and Mercosur. It proposed far-reaching deals that go beyond WTO requirements, with deeper tariff cuts, additional disciplines on non-tariff barriers, and rules in areas such as competition, investment and public procurement. The policy paper also identified some social goals to be pursued in these agreements, notably labour standards and measures for environmental protection.

Early in December 2006, the Commission asked member states for a mandate to negotiate several bilateral agreements based on these objectives.

The goal for the PES Group in EU trade policy is clear: working to ensure that Brussels' negotiating goals support the party's central aims of development, democracy, social justice and sustainability. But how best to do so?

Progress at the WTO depends on several key members, not least the EU. The PES Group should maintain its support for ‘less than full reciprocity’ for developing countries in those negotiations. On the other hand, how Brussels will pursue bilateral trade diplomacy will be determined by the EU alone. The PES Group can nonetheless strive to make these new accords as minimally damaging to the multilateral system as possible.

In strictly practical terms, the European Parliament will have only limited influence on EU trade policy so long as the constitutional treaty remains in limbo. To be as effective as possible, the PES Group will have to work with its member parties in all 27 EU states to try to sway decisions in the Council, in addition to moral suasion with the Commission.

More substantively, the PES Group could target its interventions in two key policy areas: promoting social values without falling into “social protectionism” and increasing competitiveness without compromising development. This would be combined with a focus on mitigating the negative effects of trade liberalisation at home. Europe’s socialists must rise above the tired political debate that treats ‘globalisation’ as a take-it-or-leave-it package of *laissez-faire* measures, and be the party that marries support for open markets with social protection. Furthermore, it could actively commit to the establishment of a financing device associated with trade commitments and regulations, to deal with adjustments to liberalization not only in the economic front but also as it relates to labour market and environmental needs. Such a facility or mechanism is now feasible in the context of what WTO members have termed “aid for trade”.

The PES Group has long pushed for cohesion between trade and social values in WTO negotiations. This could play a pivotal role in light of the Commission’s desire to see labour and environmental standards in bilateral free trade agreements. This inevitably risks a fall into “social protectionism” in which such standards become a mere pretext for shutting out exports from other countries.

The purpose of such rules is not protectionist. It is to encourage other countries to ratchet up their labour and environmental practices, albeit in keeping with their level of socioeconomic development. This would be more effectively promoted through incentive-oriented policies, rather than rules that would seek primarily to punish countries that defect. Instead of seeking to export its own rules, Europe should push for equal negotiations that would respect national laws of the partner countries. It should couple these standards to technical assistance and financial support for policymaking and implementation capacity. Brussels could also use non-regulatory policies to encourage EU companies to operate responsibly in developing countries, as ‘ambassadors of European values’.

In any event, the EU’s targeted FTA partners are stable and growing economies. Perceived attempts by Brussels to force them to recognise values not necessarily germane to their concerns will risk giving rise to ill-will and accusations of a ‘colonial mentality.’

With regard to some of the Commission's competitiveness-related objectives, the PES Group opposes the inclusion of the so-called 'Singapore issues' of investment, competition, and public procurement in bilateral FTAs. However, this view may not win out in the Council. In this event, Europe's socialists would do well to have already prepared detailed proposals for how rules on these complex behind-the-border issues could be formulated in ways that are supportive of sustainable development.

How to do this? Experiences with FTAs elsewhere provide some guidance. Foreign investors have misused poorly designed investment rules in trade accords elsewhere as swords against legitimate regulation – and not simply as shields against expropriation. Without the right to regulate, developing countries lose their ability to ensure that they benefit from foreign investment. The PES Group should strive to ensure that Europe's FTAs protect this right, and that they strike an appropriate balance among the rights and obligations of investors, home states, and host states.

Similarly, competition provisions should not simply be a lever to pry open heretofore monopolistic domestic markets in developing countries. They should also help these countries protect themselves from the effects of global supply chains dominated by a tiny handful of companies.

Finally, directly elected lawmakers, both in the European Parliament and national legislatures, have often taken more development friendly positions than the Commission. Though the fate of the constitution is uncertain, the PES Group could ensure that future efforts to organize the functioning of the Union try to give the Parliament more oversight over trade (as the constitutional treaty proposed to do).

In sum, social democratic parties in Europe have been firm in demanding that member states be allowed to keep some sectors of the economy in the public sphere, in order to promote the good of the general citizenry. This same principle should be extended to potential FTA partners, to ensure that they are allowed to retain the 'policy space' necessary to pursue legitimate developmental objectives. What matters to Europe, matters to the world.

www.socialistgroup.eu
pse-newtradethinking@europarl.europa.eu