Europe, Trade Policy, and Development since the Creation of the WTO

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EUROPE, TRADE POLICY AND DEVELOPMENT
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Introduction

It may seem counter-intuitive to conceive of trade policy as development policy. At least, if you have a commercial view of trade in which the aim is to accumulate wealth by means of trade surpluses. It was this very view which, in 17th century France, at the height of Colbertism, led Richelieu to create the first colonial companies, and it still persists. It is true that trade negotiations always concern access to markets, but trade is not seen as a zero sum game: from the 18th century onwards, with Adam Smith’s theory of absolute advantage, then in the early 19th century with David Ricardo’s theory of comparative advantage, economists have commended specialised economies and international trade for the mutual benefit of the participants. From there it was only a small step to make international trade an engine of economic development, a step which economists and politicians were quick to take.

Trade for peace-making purposes thus succeeded trade for social purposes. In 1748, in *De l’Esprit des lois*, Montesquieu stressed that “wherever there are gentle ways there is commerce; and wherever there is commerce there are gentle ways”. If one of the aims of development policy is to propagate “gentle ways”, then trade policy can contribute. Moreover, Millennium Goal No 8 is: “Develop further an open, rule-based, predictable, non-discriminatory trading and financial system” as an instrument of a global partnership for development.

The European Community itself was founded on the idea that peace, and economic reconstruction and development, had to be achieved by means of real solidarity in the commercial sphere. By pooling coal and steel production, then extending sectoral integration to the entire economy, the founding fathers

of Europe wanted to make any war between European countries not merely unthinkable but materially impossible.\textsuperscript{4} Then, when a reconciled and finally united Europe wanted to take its place on the international stage, it did so by means of its commercial policy, the spearhead of its foreign policy.\textsuperscript{5} In fact, while foreign policy and defence policy remained the individual prerogatives of the Member States, commercial policy was a genuine common policy.\textsuperscript{6} In the World Trade Organisation (WTO), the European Union speaks with a single voice; that is not so in the United Nations or in the other global forums concerned with economic and political governance.

For these organisational reasons, the European Union has taken an extensive view of the content and goals of its commercial policy. In particular, the granting of preferential tariffs and the promise of greater commercial integration formed one of the main vectors of the European Community’s development policy. However, those preferences were eroded over time, and were called into question by the creation of the WTO and the revival of the principle of non-discrimination. The European Union therefore had to rethink the connection between commercial and development policy, and set aside unilateral tariff preferences in favour of mutual regional trade agreements. However, the 2008 crisis and its geopolitical consequences, including the accelerating transfer of supply and demand to emerging countries, undermined the European idea of development, prompting Europe to rethink aid for trade and the role of public policy.

I. EROSION OF THE COMMUNITY TARIFF PREFERENCES

For historical reasons, European countries tried to maintain preferential trade relations with a number of developing countries. When the commercial policy became a Community policy, that took the form of a system of common tariff preferences. Although it was at odds with the principle of non-discrimination forming the basis of the multilateral trade system, these preferences were tolerated in order to aid development. However, the creation of the WTO changed the picture: the Community preferences were gradually eroded and were called into question both by the doctrine and by the courts.

\textsuperscript{6} Qualified majority voting prevents one Member State from blocking the decision-making process.
A. FROM THE PRINCIPLE OF NON-DISCRIMINATION TO THE SYSTEM OF TARIFF PREFERENCES

1. GATT and the Principle of Non-Discrimination

The 1947 General Agreement on Tariffs and Trade (GATT), which forms the basis of the post-war multilateral trade system, is based on the principle of non-discrimination. That principle has two pillars: the most favoured nation clause (Art. I of GATT) and national treatment (Art. III of GATT). Under the first clause, a country cannot discriminate between imported products of different origins; under the second, a country cannot discriminate between its own products and imports (once the customs duties have been paid). In other words, similar products must be treated in the same way, whether they are imported or not, and whatever their origin – as long as they come from a GATT signatory country, of course.

The underlying idea is to allow free rein to comparative advantages and not to distort competition between trading partners. If this principle is respected and quantitative restrictions on trade are prohibited (Art. XI of GATT), the only variable left is customs duties, which must be gradually reduced during rounds of multilateral negotiations (the GATT rounds). However, the GATT does provide for a number of exceptions to the principle of non-discrimination, including general exceptions under Article XX concerning the environment, public health, national security, etc. and those under Article XXIV concerning regional trade agreements (customs union, free trade area, and provisional agreement on the creation of a customs union or free trade area), which are subject to certain implementing conditions.

For the United States, it was also a question of gaining access to the markets of the former colonies of the European powers, and respecting the terms of the President’s negotiating mandate conferred by Congress: to negotiate trade agreements on a basis of reciprocity. Yet reciprocal concessions cannot be guaranteed unless every new concession to a third party is immediately extended to the parties to the original agreement: that is guaranteed by the most favoured nation clause.
2. The Return of Preferences in Favour of Development

Very soon, however, the principle of non-discrimination was undermined by the GATT’s contracting parties. For example, the exception in Article XXIV on regional agreements was loosely interpreted to allow, for instance, European integration in a Cold War context dominated by geopolitical considerations. While customs duties were gradually reduced, new barriers (known as “non-tariff barriers”) appeared which, in the absence of any consensus on amending the GATT, were dealt with in multilateral agreements which were only binding on their signatories. Thus, in the 1970s, “GATT à la carte” gradually became the rule.

Coincidentally, some voices were raised in favour of revising the GATT to take better account of the specific needs of developing countries. In 1954 the idea of special, differential treatment was introduced in Article XVIII on state aid for economic development, and in particular on balance of payments considerations. In 1965, Part IV of the GATT was added, concerning trade and development, finally setting aside the principle of non-discrimination in respect of relations between developed and developing countries. Since then, all agreements concluded via multilateral trade negotiations have recognised and developed the concept of special, differential treatment in favour of developing countries; this concept was the subject of special negotiations in the latest round of multilateral negotiations launched in Doha in 2001.

Moreover, the idea of granting preferential customs duties to developing countries, to give them access to the markets of developed countries, steadily gained ground. Inspired directly by the economic theory of infant industries, tariff preferences were supposed to enable the industries of developing countries to adapt to the requirements of international competition: on the one hand, those industries gained preferential access to the markets of the wealthiest countries via customs duties which were lower than those imposed on their competitors from developed countries; on the other hand, the national market was still protected in the absence of reciprocal tariff concessions. These two effects combined were to enable businesses in developing countries to really “take off”, i.e. to achieve a critical mass permitting competitiveness gains, and to acquire the means to withstand international competition.

The GATT contracting parties thus decided, at first temporarily (decision of 25 June 1971) and then permanently (decision of 28 November 1979, known as the “enabling clause”), to adopt a derogation from the most favoured nation clause in order to establish generalised systems of preferences (GSPs) in favour
of developing countries. In 1971, the European Community notified the creation of a GSP under the GATT, followed by the United States in 1974; today, almost twenty GSPs have been notified. These systems later became more complex, introducing various levels of preferences. For example, under the 1975 Lomé agreement – the first in a series – the European Community granted additional preferences to the African, Caribbean and Pacific (ACP) countries; those preferences were amended by the Cotonou agreement in 2000. Since 2006, a special regime has also been reserved for developing countries that respect certain international agreements, notably concerning the environment and labour rights (GSP+), and for the least developed countries (LDCs – Everything but Arms, 2001).

B. The Creation of the WTO and the Questioning of Tariff Preferences

1. Creation of the WTO and the Change in the Multilateral Situation

The creation of the WTO at the conclusion of the Uruguay Round (1986-1994) fundamentally altered the international trade deal and its governance. The tariff preferences and other exceptions to the principle of non-discrimination, granted unilaterally and sometimes without strict compliance with the law, were now to be closely scrutinised for at least three reasons.

First, the WTO agreement extended multilateral discipline to new areas such as textiles and agriculture, which form the bulk of developing country exports and are therefore sectors which may or may not be subject to tariff preferences. Before the WTO agreement on textiles and clothing, for example, bilateral negotiation of import quotas was the rule: it was only after 1995 that clothing and textiles were gradually integrated into the 1994 GATT rules. So long as

7. GATT, decision of 25 June 1971, Generalised system of preferences, document L/3545, authorising the establishment of a “system of generalised, non-reciprocal and non-discriminatory preferences beneficial to the developing countries”; GATT, decision of 28 November 1979, Differential and more favourable treatment, reciprocity and fuller participation of developing countries, document L/4903, authorising “preferential tariff treatment accorded by developed contracting parties to products originating in developing countries in accordance with the Generalised System of Preferences”; “differential and more favourable treatment […] concerning non-tariff measures”; “regional or global arrangements entered into amongst less-developed contracting parties for the mutual reduction or elimination of tariffs and […] for the mutual reduction or elimination of non-tariff measures, on products imported from one another”; and “special treatment of the least developed among the developing countries in the context of any general or specific measures in favour of developing countries”.

there was no multilateral discipline, no GATT contracting party could contest these preferences.

Next, the WTO Memorandum of Understanding on the rules and procedures governing the settlement of disputes considerably reinforced the judicial character of the multilateral trade system. True, the 1947 GATT provided for a dispute settlement procedure with the possibility of sanctions, but its judgments were essentially “diplomatic”, i.e. subject to the good will of the parties: the rule of consensus prevailed, and any GATT contracting party could block the procedure at the start of the dispute, when the report by the special group was adopted, or at the time of the sanctions.\(^8\) In fact, in almost 50 years of the GATT, it had never been possible to impose sanctions.\(^9\) The WTO overturned the rules by making it automatic to set up a special group, and to adopt its report or impose sanctions unless there was a consensus to the contrary. In return, an appeal body was set up and rules were laid down on the length of procedures. This reinforcement of the judicial character of dispute settlement gave developing countries fairer access to the WTO judge, and no subject – even as politically sensitive as tariff preferences – was now immune to legal action.

Finally, the WTO established a more universal multilateral trade system, with 153 members today, compared to 23 contracting parties at the start of GATT. Developing countries in particular form a large majority of the WTO members, so that the potential conflict between the multilateral rules and systems of preferences has become more glaring. Those who did not enjoy preferences but could not complain under GATT can now do so under the WTO. As the WTO became universal, the scope for any discrimination diminished and the risk of disputes involving developing countries increased.

### 2. The Triple Question mark Over Preferences

In this context, tariff preferences were questioned on three accounts: mechanical, legal and ideological.

First, there was the mechanical questioning of tariff preferences: between the creation of the GATT (1947) and that of the WTO (1994), the average value of

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9. Only once were sanctions approved without being implemented: United States – Restrictions on Dairy Products, BISD 1S/31, 32, 62, 2S/28, 3S/46, 4S/31.
customs tariffs dropped from 38% to 4%.\(^\text{10}\) In other words, during the rounds of multilateral negotiations and tariff reductions, the advantage conferred by the tariff preferences was eroded. The GATT’s success was also combined with a proliferation of differential treatments granted to developing countries separately from the preferences, notably under bilateral and regional trade agreements. The exception provided for by development economists in the 1970s was no longer so exceptional, as all the GATT contracting parties were also members of one or more regional trade agreements.

Next, as a logical consequence of the reinforced judicial nature of the WTO and increased access to dispute settlement for a greater number of developing countries, the system of tariff preferences became the subject of complaints and judicial condemnation. Barely a year after the establishment of the WTO, the famous “banana war” began, weakening the European Union’s system of preferences. The 1971 and 1979 decisions had in fact authorised developed countries to introduce “non-reciprocal, non-discriminatory preferences beneficial to developing countries”. However, developing countries did not all enjoy the same preferences. In the banana case, the European Union, which gave preference to its ACP partners, was found guilty on several occasions during the fifteen-year legal battle (1996-2010).\(^\text{11}\) In another case which ran from 2003 to 2004, India challenged the legality of the European Union’s “special incentive arrangements”, and in particular the scheme encouraging efforts to combat drug trafficking, which had the result of granting some countries tariff reductions in excess of those under the general system of preferences.\(^\text{12}\) At first, the special group found in India’s favour and ruled that the European GSP was contrary to GATT Article I, and that it was not justified under the 1979 enabling clause, rejecting any form of differentiation between developing countries under GSPs.\(^\text{13}\) Later, however, the appeal body reversed that judgment and interpreted the enabling clause as permitting such differentiation provided it was based on objective criteria intended as a positive response to the specific need for development, funding and trade of a developing country or group of developing countries. While the decision of the appeal body in the European GSP case thus opened the way to differentiation between developing countries

11. European Communities – Regime for the importation, sale and distribution of bananas, WT/DS27.
12. European Communities – Conditions for the granting of tariff preferences to developing countries, WT/DS246.
under the system of preferences, it has yet to be determined what criteria might satisfy the objectivity test mentioned by the appeal body.

In the end, tariff preferences were called into question as economic thinking changed and began highlighting their perverse effects. Developed countries in particular have long excluded from preferential treatment any product that they considered “sensitive” (if not openly, then sometimes by playing the rules of origin card), particularly in agriculture, with the following consequences:

- less diversification of production in developing countries;
- concentration of activity on segments in the production chain where value added is lowest – notably because of tariff escalation;
- specialisation in sectors neglected by developed countries (on account of profitability, natural resources or climate: exotic products and commodities).

The systems of tariff preferences also had a ratchet effect: the countries enjoying preferences based their competitiveness on price, and became dependent on the granting of those preferences for their exports. Thus, Ozden and Reinhardt have talked about the real “perversity” of trade preferences. Moreover, the unilateral preferences granted by the developed countries did not encourage the beneficiary countries to make tariff concessions themselves, yet it is the countries with liberalised trade that reap the benefits of growth. Unsurprisingly, the countries that were the main beneficiaries of the preferences achieved the weakest growth; the countries which had their preferences withdrawn achieved stronger growth following that withdrawal, as they had to make the effort to adapt their production structure to the demands of international competition. The preferences also overturned the logic and balance of multilateral trade negotiations: dependent on the unilateral concessions by developed countries (preferences), developing countries were in a weak position in the GATT negotiations, and later those of the WTO. Finally, tariff preferences distorted trade in a manner that was prejudicial to developing countries and to the development of South-South trade.

15. *Idem*, p. 5 et seq. The authors cite the example of Chile and South Korea, which, at the end of the 1980s, ceased to enjoy the benefits of the American GSP, one temporarily (political sanctions) and the other permanently (wealth threshold): they immediately took action following this suspension, implementing reforms designed to liberalise their economies.
II. THE NEW EUROPEAN VISION OF TRADE-RELATED DEVELOPMENT

The condemnation of the European Union in the banana case sounded the death knell of the system of preferences established in the 1970s. The Cotonou Agreement (2000), which replaced the Lomé Convention, provided for transition to a new form of trade cooperation based on economic partnership agreements: regionalism and reciprocity thus gave way to unilateral preferences, at the same time as the Union adopted a more integrated vision of commercial and development policies.

A. REGIONAL INTEGRATION, THE NEW INSTRUMENT OF PREFERENCE

1. Regionalism and the Return of Reciprocity

The European Union system of tariff preferences, inherited from the 1970s, was based on the idea of asymmetrically open markets, meant to enable the infant industries of developing countries to develop and substitute domestic products for imports while retaining preferential access to the markets of their more advanced trading partners. However, practical experience demonstrated the limits of that approach (see section above). So, apart from its condemnation by the WTO dispute settlement body, the European Union had sound reasons to change the paradigm of its commercial policy in relation to developing countries. The Cotonou agreement (2000) enshrined that change by specifying that, by 2008, the preferences granted to ACP countries would be withdrawn in favour of new economic partnership agreements (EPAs) based on reciprocity: to avoid the perverse effects of the preferences, developing countries undertook to lower their customs barriers; and in order to avoid the effects of trade distortion prejudicial to South-South trade, barriers between developing country signatories to the same agreement were likewise lifted. This therefore meant real regional integration with its vertical and horizontal dimensions. In legal terms, the European Union took its system of preferences out of the framework of the 1979 enabling clause and placed it in the framework allowing for exceptions under GATT Article XXIV (and Article V of the General Agreement on Trade in Services – GATS), in conformity with WTO law. In order to allow time for negotiating the EPAs (2000-2008), the European Union secured from the WTO members an exemption for its ACP regime at the ministerial conference in Doha in 2001. Since then, a full agreement has been signed with the
Caribbean countries (2009), and other interim agreements have been concluded with African partners.\textsuperscript{16} Other agreements are still being negotiated.

In the 2006 Global Europe report, the European Commission recognised that its commercial policy had been dictated mainly by political considerations (neighbourhood and development policy) and advocated a return to economic factors as the main criteria for negotiating regional trade agreements.\textsuperscript{17} After that, the Union began negotiations with some major emerging countries such as India: the ACP countries were therefore no longer the only ones that concerned the Union, even if the EPAs had a more advanced developmental dimension than the trade agreements negotiated with other partners. In every case, regionalism and reciprocity became the pillars of European commercial policy, while also shaping European development aspect policy.

2. Relics of the System of Preferences

The change in the paradigm of EU trade policy did not affect some relics of the system of unilateral preferences. That is true in particular of preferences in favour of least developed countries (LDCs): although they represent a form of discrimination against other developing countries, they are permitted by the 1979 enabling clause and are based on objective, transparent criteria (the United Nations definition based on per capita wealth). In 2001, the European Union thus decided to abolish customs duties on all imports of products originating from the LDCs except for arms and munitions: this was the “Everything but Arms” initiative, which benefited 48 countries around the world.

As for the GSP, similarly permitted by the 1979 enabling clause, the European Union intends to reduce the number of beneficiaries significantly by 2014 by excluding high-income countries (with a per capita GNP of more than \$12,270), upper middle income countries (with a per capita GNP between \$3,976 and \$12,270), the countries enjoying more advantageous preferences under free trade agreements, and the overseas countries and territories.

Finally, unilateral preferences did not disappear altogether from the multilateral regime imposed on the European Union and on the other WTO members. Thus, almost a hundred provisions in WTO agreements specify an SDT [special and differential treatment] in favour of developing countries, and the LDCs in

\textsuperscript{16} This concerned agreements concluded individually with Botswana, Swaziland, Lesotho, Mozambique, Cameroon and Ivory Coast.

\textsuperscript{17} European Commission, Global Europe: Competing in the World. A Contribution to the EU’s Growth and Jobs Strategy, document COM-2006/0567 of 4 October 2006, Brussels, p. 11.
particular. One part of the Doha agenda for development was also devoted to this SDT, which aims to expand trade options for developing countries, safeguard interests and serve special development needs, increase the flexibility of developing countries’ commitments, extend transitional periods, and reinforce technical assistance. Various ideas were also put forward during these negotiations and in the G20 on these economies granting access to LDC imports free of customs duties and quotas.

B. BEYOND PREFERENCES, A QUITE DISTINCT IDEA OF DEVELOPMENT

1. From Tariff Preferences to Collective Preferences

The switch to EPs meant a real change in the paradigm of EU commercial policy towards developing countries. The idea of regionalism, as opposed to simple preferences, enabled the European Union to go much farther than merely reducing tariff barriers. Following the reduction in customs tariffs which resulted, in particular, from the trade negotiations, the main impediments to trade were non-tariff barriers: imposing one’s environmental standards, health standards, or technical and other standards on one’s main trading partners became more important than duty-free access. This triggered a rush to gain influence on the part of the great trading powers, including the United States and the European Union, with developing countries as the main battleground.18 Apart from commercial considerations, there is genuinely a particular development vision that the European Union is trying to impose via its trade preferences, be they unilateral (GSPs) or reciprocal (EPs and other regional trade agreements): sustainable development which respects good governance, the environment and the fundamental rights of labour, in particular. Trade preferences are now granted in exchange for the adoption of the European Union’s “collective preferences”.

As a result of this change of paradigm, the GSP is gradually giving way to a new GSP+. From the early years of this century, the European Union had added to the GSP various “special incentive arrangements” for the protection of the environment, for the protection of labour rights or to combat drug production and trafficking, accompanied by additional preferences.19 The new GSP which entered into force in 2006 reinforced this positive conditionality: now, in order

18. O. Cattaneo, “Quelles ambitions pour la politique commerciale...”, op. cit.
to qualify for additional preferences (GSP+), candidate countries must have ratified and effectively implemented no fewer than 14 international agreements on basic human rights and labour rights, and 11 agreements on the protection of the environment and good governance (including efforts to combat drug trafficking, money laundering and corruption).

While this system seems less discretionary, more certain and more predictable than that of the United States, it nevertheless attracts criticism, as is evident from the various complaints made to the WTO by certain developing countries which feel that this positive conditionality is detrimental to them. The new GSP+ is also restrictive and liable to entail substantial costs in countries which have to implement all the international agreements listed.

2. Aid for Trade and Reconciliation with Traditional Aid Policy

Apart from the question of non-tariff barriers, it became apparent that opening up markets by a (unilateral or reciprocal) reduction in customs duties was not enough to create new trade and export opportunities for developing countries. From 2001, the concepts of technical assistance and reinforcing potential for trade appeared on the Doha development agenda. At the WTO ministerial conference in Hong Kong, in 2005, a global aid for trade initiative emerged, establishing a new relationship between trade policies and development aid. The idea is to reinforce developing countries’ potential for trade by tackling the obstacles facing businesses not only externally (barriers at the frontiers and beyond the frontiers of trading partners), but also internally (domestic constraints hampering supply and export): in the absence of infrastructure and institutions or appropriate policies (e.g. certification laboratories, roads, port/airport infrastructures, efficient customs services, etc.), it is in fact impossible for developing countries to make use of the opportunities created by the tariff preferences and other concessions granted in multilateral or regional trade negotiations.

In 2009, aid for trade represented $40 billion, divided between technical assistance for regulation and trade policy (4%), boosting productive capacity (43%), and trade-related infrastructure projects (53%). Policies on adjustment to an open economy were also set up to attenuate the effects of import shocks. This aid is growing rapidly, its value having risen by 65% since 2005.20

Aid for trade reconciles commercial policies and development aid, and establishes commercial integration as a development vehicle. It also has significant implications for the European Union and its members: in fact, while commercial policy is a matter for the Union, the member countries have retained their own development policies and agencies. Reconciliation is therefore not merely theoretical but applied in practice, restoring a national instrument of commercial policy. For example, in 2002, the French Development Agency (Agence Française de Développement: AFD) acting jointly with the Directorate General of the Treasury and Economic Policy (DGTPE) of the French Ministry of Economic Affairs, Industry and Employment, created a trade capacity building programme (PRCC) dedicated to promoting trade with developing countries, especially the LDCs, and integrating them into the world trade system. While some projects were clearly inspired by the concept of preferences, in the case of certain countries with which France had strong historical links and certain sectors which were granted quotas (e.g. support for the textile industry in Cambodia and Madagascar), the PRCC was also a symbol of the changed trade policy paradigm, aimed at the spread of certain regulations and standards of particular importance for France (e.g. the promotion of rubber certification in Cambodia and geographical descriptions in Cambodia and Laos). Thus, European Union members now likewise have the means to promote this idea of development which reflects their collective preferences, in the same way as the Union.

III. TOWARDS A NEW QUESTIONING OF THE EUROPEAN IDEA OF DEVELOPMENT?

The creation of the WTO radically altered the relationship between trade policy and development, with the transition from a system of unilateral preferences to a system of mutual concessions granted under regional trade agreements. With the widespread reduction in customs tariffs and the growing importance of non-tariff barriers, the Union also used its commercial policy to promote a particular idea of development, introducing trade integration conditions such as regulatory convergence, good governance, and respect for the environment and labour rights. At the same time, the establishment of aid for trade gave a new role to national aid agencies in the commercial sphere, and they are also

helping to promote the collective preferences and the idea of development shared by EU members.

However, the rise of this new vision of development aid faltered on account of major geopolitical upheaval accelerated by the 2008 crisis: on the one hand, some emerging countries such as China have a bigger role on the global commercial and political stage, but do not share the European Union’s idea of development; on the other hand, fiscal reality and the debt crisis have reduced the means for projecting the power of the Union and its members. Overall, we need to consider these new challenges, particularly by turning to new players, such as private enterprises, to promote certain collective preferences and the European idea of development.

A. THE 2008 CRISIS AND THE GREAT GEOPOLITICAL UPEHVAUL

1. Transfer of Supply and Demand to Emerging Countries

The 2008 crisis did not fundamentally change the main trends in the global economy, but it did speed things up: China has gradually made its mark as a global superpower in terms of trade, followed by other emerging countries such as India and Brazil; the mounting deficits in the United States and Europe led to a debt crisis as well as the collapse of the financial markets and trade. For the first time since the depression of the 1930s, global economic output (gross domestic product – GDP) fell by 2.2% in 2009, with a decline of 3.3% in the rich countries, while the growth rate slowed from +5.6% in 2008 to 1.2% in 2009. Net flows of private capital were down by almost 70% against the historically high level of 2007. World trade contracted by 12%, the biggest fall in trade volumes ever recorded. Another 30 million people became unemployed, making a total of 200 million out of work, and extreme poverty affected an additional 64 million people by the end of 2009.

This contraction of the global economy benefited China, which still recorded strong growth (around 10%) and a current account surplus on the balance of payments (+10%) during and after the crisis. After having declined automatically as a result of the crisis, global imbalances became even more marked after the return to global growth. For example, in 2011 France’s trade deficit with China

exceeded € 27 billion.\textsuperscript{25} While the United States and Europe still accounted for 56% of African exports in 2009, the figure had been 67% in 2000; Asia’s share increased from 17 to 22% over the same period.\textsuperscript{26} China thus became a significant partner for Africa from the point of view of trade and development aid: China’s foreign direct investment (FDI) in Africa has grown by an average of 46\% per annum during the past decade; the amount of Chinese finance for infrastructure in Africa rose from $1 billion in 2001 to $7.5 billion in 2006. However, Africa’s exports to China are still highly concentrated in geographical terms (six countries represent 60\% of Chinese imports: South Africa, Egypt, Nigeria, Algeria, Morocco and Benin) and in terms of sectors (70\% crude oil and 15\% commodities); Africa’s trade deficit with China amounted to $10 billion in 2008.\textsuperscript{27}

2. A Contradictory View of Development

Since the 2008 crisis, China has been a key driver of growth for the global economy and a source of trade opportunities for the other developing countries, but some writers have wondered about the impact on development of the transfer of supply and demand to the emerging countries.\textsuperscript{28} For example, analysis of cassava exports from Thailand or timber from Gabon reveals a number of simultaneous phenomena: the decline in exports to the European Union was offset by strong growth of exports to China; on the other hand, this transfer of demand from Europe to China was accompanied by a fall in the added value of export products to the detriment of local processing industries. In other words, while the European Union imported processed products (manufactured in Thailand and Gabon), China is content to import huge quantities of commodities for processing in China. While the volume of exports rises, benefiting the commodity producers, processing firms are affected and so are the development prospects of countries trying to move up the value chain. It also seems that Chinese importers pay little attention to environmental standards and respect for

\textsuperscript{25} See the trade statistics at www.insee.fr.
\textsuperscript{26} Global Economic..., op. cit.
labour rights, unlike European importers, and therefore threaten the sustainable development of these countries supplying commodities.29

The development vision promoted by the European Union (good governance, respect for environmental and health standards, etc.) via its policy of trade preferences therefore faces a new threat. China’s concurrent vision is largely self-centred: importing commodities for processing in China, leaving other developing countries at the bottom of the development league. This predatory attitude is not surprising in view of China’s level of development: as stated in the introduction, the objective of the colonial powers was also commercial at first. China is not yet ready to take on the role assigned to the great powers, despite its economic weight, whereas the United States and the European Union no longer have the resources to fulfil their ambition. Similarly, when the world turned to the United States in 1919, the US Senate rejected the Society of Nations, and it took the new world power a further 30 years to be converted to multilateralism in 1945. China will probably move faster, but still needs to manage its own development problems before embracing collective preferences similar to those of the richest countries today. Meanwhile, there is once again a question mark over the instruments of EU commercial and development policy: aid for trade, handed out by the Union and its members with the aim of developing production chains and ensuring conformity with European standards, is bound to produce a smaller return on investment if demand shifts to China, where there is little appetite for finished products conforming to these high standards.

The conflict between these two visions of development is clearly apparent in Gabon. After coming to power in 2009, President Ali Bongo stipulated compulsory local processing for exported timber (up to 80% of exports in 2012) in order to create jobs and facilitate the industrialisation of the production chain. This policy was contrary to the interests of China, which imports 60% of Gabon rough timber. Conversely, it does to some extent promote the development vision of the European Union, which mainly imports processed timber. Thus, in July 2011 the visit by the French Prime Minister to Gabon led to the signing of an AFD financing agreement totalling €1.5 million to set up an agency to assist in the industrialisation of the Gabon timber sector. The conflict between the Chinese and European views on trade and development policy is therefore obvious.

B. THE ROLE OF THE PRIVATE SECTOR
IN SAFEGUARDING THE EUROPEAN IDEA OF DEVELOPMENT

1. From Predatory Enterprise to Development Vector

If the European vision of development through trade is threatened by the shift in geopolitical and economic balances, and particularly the debt crisis, which is liable to affect aid as a whole, how can we rethink the promotion of the collective preferences of the European Union and its members in developing countries? How can we promote good governance and sustainable development in other ways, instead of via traditional trade preferences? Multinational companies, long seen as predatory in developing countries, exploiting scarce resources without substantial spin-offs for the local population (justifying nationalisation or policies to promote local dimension), could be the answer, as it seems that the global value chains which organise production and distribution for multinationals could become “development chains” if the public and private agendas were better geared towards greater convergence.

Trade policy needs to be adapted to the changes which have affected international trade for the past two decades. While developing countries had long been restricted to the role of importing manufactured goods and services, and exporting products which had undergone little or no processing (minerals or agricultural commodities), the spread of global value chains and the relocation of entire segments of production from rich countries to the developing world has changed the game: that is obvious for China, India, Brazil and the other emerging countries, but it concerns all developing countries. At first, the jobs relocated were only basic (low level of skills required and low value added), but the growing sophistication of intermediate products and services traded over the past decade, and the need to adjust production to the requirements and tastes of consumers in emerging countries, prompted multinationals to relocate new jobs previously reserved for the rich countries, from innovation to marketing. Consequently, there has been a change in the type of transfer by multinationals to developing countries: initially confined to FDI and direct job creation, these transfers now concern technology, expertise and other less tangible resources.

Via global value chains, multinationals have thus become important vehicles of “aid” for trade, helping to provide technical assistance and to build capacity for trade in developing countries. The third Global Review of Aid for Trade, which took place in Geneva in July 2011, highlighted this new role of the private sector in building the trade potential of developing countries.
In particular, a number of firms presented case studies showing the type of transfers made to developing countries. They can be divided into several categories: building up human capabilities by training and skills transfer; reinforcing productive capacity by the dissemination of technologies, expertise and finance for projects or infrastructure; integrating into global production chains by aligning to the standards of importing companies, which guarantee local producers a market and income in the case of quality products; facilitating trade via projects to improve logistical and transport chains or passage through customs.30

Of course, multinationals still aim to maximise their profit, and, in that sense, this is not really “aid”. However, it seems that the public and private agendas could converge. For example, the French presidency of the G20 resulted in the preparation of an action plan on the volatility of food prices and agricultural prices, which was approved by G20 member countries immediately on conclusion of the consultations with international organisations and various private players in the sector: during these consultations, it became spontaneously apparent that the public and private agendas converged, and that a mutually agreed text serving the interests of developing countries could be adopted. The private sector also undertook to assist in implementing this action plan.31

2. Rethinking Aid for Trade and the Role of Public Policies

So there is potentially a convergence between promotion of the European idea of development through trade policy and the global production strategy of multinationals. That convergence only seems to exist in so far as multinationals are subject to domestic pressure in favour of respect for certain principles of good governance and protection of the environment and labour rights: in the absence of such pressure, firms are still largely predatory and do less to promote development.32 Firms therefore transmit the collective preferences of their country of origin, responding to what consumers want. There are some lessons to be drawn from this for the design and implementation of aid for trade and for the role of public policy in the broad sense.

First, it is right that public policy should support rather than replace private initiative. Many mistakes have been made in promoting developing country exports, as is evident from the survival rates of export firms and other “discoveries” (new export products) made possible by official support. To some extent, industrial policy applied at domestic level was transposed to other countries to select products with high export potential, sometimes irrespective of international demand. Aid for trade, particularly European aid, has also favoured conformity with the importing country’s standards, without guaranteeing a market: the cost of conforming to European standards and adopting the European register of geographical descriptions may thus be very high in relation to the impact on trade. Conversely, a move such as the Global Food Safety Initiative, involving more than 650 private players in the global agri-food production and distribution chain in 70 countries, provides outlets for developing country producers who gain global certification, giving them access to a market worth over €2,000 billion. Developing country producers also receive technical assistance and training to enable them to gain this global certification.33

Next, we need to expand the dialogue and cooperation with the private sector at all stages of aid for trade. When it comes to defining needs, private firms are better able to identify the main barriers to trade and investment; when it comes to preparing aid projects, private firms can judge the projects’ technical and commercial credibility; when it comes to implementing the projects, private firms are often the only ones with the necessary technical expertise; when it comes to evaluating the projects, trading firms can judge the impact of the projects on their business. Thus, expanding the dialogue and public-private partnership should help to increase the effectiveness of aid – a goal which is all the more justified at a time of tight budgetary constraints.

Finally, the role of public policy could be to ensure that multinationals abide by its goals. For example, the United Nations has developed a Global Compact whereby firms undertake to adhere to ten universally accepted principles concerning human rights, the environment, labour standards and the battle against corruption.34 Other principles concerning responsible investment have been developed with the aim of coordinating public and private agendas.35 Finally, a number of rules, such as those concerning the transparency of public contracts or competition, permit better control of business activities. It is not a question of erecting new barriers to trade, but of ensuring that public and private objec-

33. See the presentation of the initiative at: www.mygfsi.com.
35. See in particular: www.unpri.org.
tives converge towards more effective promotion of sustainable development. Moreover, that aim will be achieved only in so far as the firms themselves help to devise the public agenda and the principles which ensure that it is implemented. Thus, innovative public-private partnerships in aid for trade have made it possible to promote road safety, for example, or to facilitate trade (customs clearance) in Africa.36

Conclusion

For a long time, Europe’s commercial policy promoted primarily political objectives, which included development to guarantee stability beyond its frontiers. The tariff preferences granted unilaterally to developing country partners were the main instrument of that policy, but were called into question following the creation of the WTO in 1995. Condemned by the WTO Dispute Settlement Body for discrimination, the European Union had to introduce reciprocity in its trade preferences and switch to the regional integration model. Following a period marked by enthusiasm, however, this model revealed its limits, particularly as developing country partners of the European Union lacked the resources to conform to very complex Community regulations. The development of aid for trade in the early 2000s did push back those limits to some extent. However, the promotion of the European vision of development through trade encountered new obstacles: the budgetary and debt crisis, which has severely restricted aid ambitions since 2008; and the emergence of new trading powers which, like China, do not share the same collective preferences as the European Union, and whose dynamic markets are attracting numerous partners in the South.

European trade policy, as a strong weapon in the promotion of sustainable development, therefore requires a rethink. It is no longer merely a question of offering developing countries greater access to the European market, but of integrating them into global value chains where European and developing countries become partners, united in global competition in the face of emerging countries. In this context, partnership with the private sector will be crucial, and it seems that the segmentation of global production permits a greater convergence of public and private interests. In particular, facilitating that segmentation amounts to creating links between economies by developing infrastructure, and logistical and transport services, and by reforming border formalities. Closer cooperation with the private sector should also make it easier to tackle non-tariff barriers

36. See the practical examples of Total and Unilever in O. Cattaneo, B. Hoekman & S. Jackson, The role of international..., op. cit.
and promote certain European collective preferences. It should likewise make it possible to increase the effectiveness of aid at a time of severe budgetary constraint. It is not states that engage in trade, but businesses. If trade is to promote development, then the role of public policy must be to support private initiative while making sure that it is responsible. The European Union is more dependent than ever on its partners in development for preserving and promoting what it has achieved. But countries will not be able to attain this objective on their own. The reinforcement of global value chains is an opportunity in so far as the European Union and its public and private partners, in Europe and in developing countries, succeed in creating genuine development chains.