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EU's Policy Coherence for Development and Trade: A false Agreement

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Bonn, 6 May 2013. The EU is the world's largest donor of development assistance and on occasion of the Europe Day, 9 May, it may be worthwhile revisiting a key issue of its development cooperation.

Experience in this field shows that what donors do with the right hand may sometimes be undone by its left hand. Particular elements of a donors' policy in areas such as trade may have profound implications, both positive and negative, on the very countries it assists in tackling poverty. For quite some time the EU development community has been trying to bring policy interests other than development in line with the Lisbon Treaty's declared development cooperation objective of poverty reduction. The aim of this effort is to attain greater policy coherence for development (PCD).

The entry into force of this treaty in 2009 reinforces PCD's legal character, as outlined in article 208. The Commission has identified the five priority areas of trade and finance, climate change, food security, migration and security and the European Parliament's Committee on Development has nominated a standing rapporteur for PCD.

But how was it possible that these good intentions were reconciled with other foreign interests and particularly trade? Arguably, with EU trade interests being often at odds with development strategies of partner countries, the official adoption of PCD seemed to a certain extent an exercise of either hypocrisy or false agreement. I am strongly inclined to believe it was the latter.

Our *Don Quixotes* from the Commission's Directorate General (DG) for Trade and their Member States' counterparts sometimes seem to believe in a simplistic world where trade openness is good for poverty reduction per se, in any country, at any point in time and under any circumstances. I have come to see this position as a normative one, whereby evidence pointing to the nuances of trade openness is categorically discarded. Sometime in 2008, I was told by an EU official from DG Trade in charge of negotiating an Economic Partnership Agreement that my statement about the need to consider potential negative effects of sudden, far-reaching trade liberalisations in developing countries was "an argument from outer space".

Now, I do recognise the democratic mandate EU Institutions and Member States have in terms of (aggressively) defending European interests, particularly in the area of trade and at a moment of challenging crisis. This notwithstanding, there is no need to stick to a position which is, on the one hand, ignorant of the historical and empirical evidence, and on the other, brings the institutions to hold double standards.

Firstly, the overwhelming historical evidence from developed countries is that they opened their economies gradually, mostly once they had a firm foot in the sector. They even went to war to preserve their market hegemony, as is the case of Great Britain to control the opium in China (1939-42 and 1856-60) and most often forcefully imposed their criteria in the territories under colonial rule.

Secondly, most of the empirical evidence points to a positive correlation, on average, between trade openness and growth, and between the former and poverty reduction. But research results show that this is not necessarily so for particular cases. For example, former World Bank Research Director Martin Ravallion found 'considerable heterogeneity in the welfare impacts of trade openness, with both gainers and losers among the poor.' He also found that how directly growth translates into poverty reduction depends very much on the distributional impact of the economic process. He found that growth was seven times more effective in reducing poverty when accompanied by decreasing inequality. This means that trade liberalisation tends to have a positive effect on growth and to a lower extent on poverty reduction. But it should be adopted both judiciously and carefully. There are many reasons for this. For example, there is a need to safeguard those developing countries' infant industries with a serious prospect of becoming competitive; to ensure state revenues which tend to rely heavily on custom taxes in countries with a weak fiscal base; and to avoid letting key sectors under foreign control or potentially subjected to market failures, among others.

Thirdly, given the above considerations one cannot insist, as it is the case of the EU institutions that trade agreements with developing countries are tools for development and then let them be exclusively handled by the Commission's Directorate General for Trade and scrutinised by the Trade Committee in the Parliament. If they were true and sincere tools for development, both the DG Development Cooperation at the Commission and the Parliament's Development Committee would co-lead these instruments – if not lead them. Most African, Caribbean and Pacific countries and regions have understood this dilemma, which explains to a large extent their lasting reticence to sign and ratify any Economic Partnership Agreement under the terms offered by the EU.

All this leads me to the conviction that PCD was embraced in the first place due to a false understanding. While development fans thought this would bring policies other than development in line with the poverty reduction objective, trade liberalisation supporters considered that there was nothing to be brought in line because trade openness automatically implies growth and poverty reduction. This set the basis for an easy consensus, but with different concepts of what was being agreed upon.

The question now is whether this false agreement will bring the EU to foster PCD for the sake of its poverty reduction objective or, on the contrary, utilise the term to bring development policy in line with trade interests. PCD may produce clear positive results in the intersection of security and development by means of a comprehensive approach that settles a fair balance for intervention in difficult environments. Yet, as far as development objectives are concerned, my fear is that the assumption that trade and other interests vis-à-vis partner countries are automatically in line with the former may actually overrule the centrality of poverty reduction.

As the European External Action Service (EEAS), the newly created EU diplomatic body, progressively takes the reins of EU's foreign policy, increased coherence in this area, although desirable in principle, may occur at the cost of development policy. Development could thus potentially end up becoming an instrument for the benefit of other external interests such as trade. In the face of this, and if this were to be the case, it may be better to maintain a certain degree of 'healthy' policy incoherence for development so that European policy in this area remains true to its purpose. Eventually, the challenge is to incorporate into the development agenda a broader dimension to tackle global issues but without abandoning neither the core objective of poverty eradication, nor the need to improve coherence for development in other policy areas.

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