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# UNIT 14 GLOBALIZATION, WTO AND EU

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## 14.0 INTRODUCTION

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Globalization is a complex process of 'interconnectedness', aiming to create a free flowing but collectively regulated and supervised global community of culture, economics and politics. In the process, universal framework of rules, laws are made through multilateralism and supranational organizations like UN, WTO etc. These institutions significantly pattern economics and politics of nation-states both internally and externally. The emerging framework and infrastructure of global governance seeks to standardize rule making and policy decisions universally with respect to trade, industry, services, environment, commerce, labour, defence and security in accordance with common global perspective, need and requirements.

Need for common rules and laws and collective regulation is based on the 'stretching out' hypothesis that 'events and decisions taking place on one side of the world have a significant impact on the other.' Usually cited factors driving globalization include global warming and climatic changes, environmental degradation, depleting natural resources and ecosystem losses, poverty and hunger, pandemic health issues like HIV/AIDS, drugs and human trafficking, unrestrained capitalism and monopolization of international trade by select MNCs and few countries, universal drive towards democracy and human rights, national wars and transborder terrorism, fast pace of IT revolution, etc. In this unit we discuss the process of globalization and place of EU in it.

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## 14.1 OBJECTIVES

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After going through this unit, you should be able to understand:

- meaning and process of globalization and World Trade Organization;
- European Unions participation in the process of globalization and in WTO as a regional group;
- objectives of European Union's development cooperation policy within the framework of WTO; and
- European Unions concerns for environment and its initiatives for its protection.

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## 14.2 GLOBALIZATION

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Globalization emerges from and operates at the intersection of culture, politics and economy. It has become a very significant factor in international relations. Both individual countries and regional groups are participating in the process in various ways. In this unit you will read about the role European Union is playing in the process of globalization and its related institutions like WTO. Features of globalization as identified by Allan Cochrane and Kathy Pain include the following:

- 1) the stretching of social and economic relations
- 2) the intensification of communication and other linkages
- 3) the interpenetration of economic and social practices
- 4) the emergence of global infrastructure.

### 14.2.1 Global Governance

Structurally speaking, globalization does not mean end of the nation-state, but the "development of multilayered and multilevel politics, in which nation-states look increasingly 'downward' towards vibrant city and subnational regional politics and 'upward' towards supranational regional and global associations and institutions." (Held, 2004, p.11). Thus localization, regionalization and internationalization are three mutually interrelated and reinforcing processes of the globalization. For our understanding we may notionally describe globalization as two way process of 'localization of global' and 'globalization of local'. Therefore globalization is both an inwardly and outwardly phenomenon wherein national government rationalizes, modifies and prioritizes its rules and policies related to trade and development in accordance with the terms of multilateral agreements, and the agency and infrastructure of global governance.

As a matter of fact globalization has altogether transformed the notion of governance. It at once marks heralding of a new form of transgovernmentalism, a multicentric mode of decision-making in which key actor includes national government officials, corporate representatives, civil society organizations and other stakeholders. There is no single rule making body. Different global agencies or institutions make specialized decisions. Their decisions regulate the policy conduct not only of the national governments but also of the multinational corporations (MNCs). The signatory national governments have to pass conformity legislations, and MNCs to modify their product processes. One would like to point out the fact that the regulatory cooperation and policy standardization are two crucial objectives of global governance. However, in this context one would also like to caution that global governance need not to be equated with 'world government' with "ultimate legal authority and coercive powers, but it is much more than a system of limited intergovernmental cooperation. With the UN at its institutional core, it [global governance] comprises a vast range of superstate bodies and regional organizations... as well as regimes and transnational policy networks embracing government officials, technocrats, corporate representatives, pressure groups and non-governmental organizations." (Held, 2004, pp. 78-79)

Held characterizes global governance as multilayered, multidimensional and multi-actor system. "It is multilayered in so far as the development and implementation of global policies involve a process of political

coordination between suprastate, transnational, national and often **substate** agencies...It is multidimensional in so far as the engagement and configuration of agencies often differ from sector to sector and issue to issue, giving rise to significantly differentiated political patterns...[it is] multi-actor complex in which diverse agencies participate in the development of global public policy."

Another interesting feature of global governance is that it along with multilateral institutions like **WTO**, **IMF**, **UN**, **World Bank** etc also promotes ad-hoc or regular, public or private institutions such as **Global Water Partnership**, **World Commission on Dams Forum** to supplement or to act on behalf of the major global economic and political institutions as mentioned above. Growing public-private partnership on global scale has resulted in the decentring of law making process. As a consequence we find the emergence of a new 'transnational legal order', which as Cutler points out is "globalizing a corpus of commercial law and practice that derives from increasingly diverse and multiple local, regional and global locations involving both **state**-nonstate authorities."

Transnationalization of political action involving **NGOs** networking and civil society action creates a global community of interests. Greenpeace movement is one of the finest examples of this process. One is also witnessing a great upsurge in citizens' diplomacy, outpacing the exclusivity of governmental decision making system. National government is now no longer the sole arbiter of the interests of its citizens. In the international system of decisions, civil society action is more pronounced at the **IGO** level of policy making.

As stated above, globalization also alters the power sharing arrangements within national polities. Anthony **McGrew** rightly points out that "recent years have witnessed a substantial expansion in the role of local governments and **substate** authorities in the global arena, as they seek to promote the cultural, economic and political interests of their locale. As global competition to attract foreign investment has intensified, cities, regions and subnational authorities have become increasingly active at global and regional levels. Their activism takes a number of form: from establishing local diplomatic missions abroad, through representation in key global and regional forums, to the creation of formal bodies, such as the **International Union of Local Authorities**. Through such mechanism, **substate** governments can take significant policy initiatives, which, in many cases, may bypass their own Central Government. They also provide a framework within **which collaborative** initiatives to deal with **common** or shared problems, from the illegal drugs trade to environmental pollution, can be pursued". (Held - 2004, p 146)

Saliency of regional unions such as **EU** is an inevitable outcome of the globalization process. Regional union has introduced a new **kind** of group politics in the global decision making process. Regional union functions on confederal arrangement basis wherein member states pool together their respective national sovereignties in order to serve their common social, economic, political and security interests. It is generally the union that negotiates vital national interests of the member states in multilateral forums. Federal-confederal mode of regional and global governance, besides protecting the vital interest of the individual state, better equips them with multiple competitive political and economic capacities to compete globally. It is probably the reason that **EU** has embarked upon the enlargement policy, negotiating and integrating newer states as its member.

## 14.2.2 Economic Rationale of Globalization

Rationale of globalization is situated in the proglobalist argument that the equity and growth across the globe can be ensured only through a common liberal framework of international trade and cross boarder flows of services, goods and industry. It is being further argued that open market economy is conducive to investment, employment, currency and labour exchanges, flow of goods and expansion of services. Industrial production becomes complex international where components of productions are drawn from not one but from different regions. There is boost to **intrafirm** trade. This has been made feasible mainly because of the rapidly changing global production system, due to intertwining of trade and foreign direct investment (**FDI**) on the one hand and growth of knowledge intensive and techno-savvy industries on the other.

However the most dramatic element of economic globalization is rapidly integrating financial markets. Capital account liberalization tend to expand capital mobility, decongesting policy outlook in trade and investment. Equity and currency markets along with banking are direct beneficiary of liberalization and globalization. In institutional terms features of global financial system **include-**

- i) Introduction of a new multilateral trading system under the supervision and regulation of WTO, which in many respects is more democratic than the World Bank or IMF. "Its decision making structures do not reflect the financial power of members. The prevailing rule is one country, one vote, with each member having the right to veto decisions on what purports to be a consensus basis. In a formal sense, Benin has the same vote as the United States, and Bangladesh as the EU." (HDR, 2005, p146)
- ii) Emergence of new global production system in which about 65,000 MNCs with around 8,50,000 foreign affiliates "are the key actors behind these global production systems. They coordinate global supply chains which link firms across countries, including even local subcontractors who work outside the formal factory system and outsource to home workers." (Fair Globalization, 2006, para 159).
- iii) Key players of world financial system now include private actors and agencies like 'banks, hedge funds, equity funds and rating agencies.' As a matter of structural change, lending and funding to a country is greatly determined by the stock- assesses, data managers, and IT professionals.
- iv) Multilateralism in trade has altogether changed the notion of national governance, where trade negotiations do not wait for parliamentary legislation and sanction first to proceed and conclude on foreign economic relations. Now each government department has its own international office coordinating and dealing with their counterparts in other countries. The lion-fox public administration system is now being replaced by highly diffused, decentralized and multi actor and multi specialty system of governance both at the national and international levels. It is no wonder that at the global level "there has been an explosive growth in the number of intergovernmental organizations (IGOs)—from 37 in 1909 to almost 300 in 1999—whose activities mirror the financial responsibilities of national government departments, embracing everything from finance to flora and fauna. In addition to formal organizations such as International Monetary Fund (IMF) and the World Health Organization (WHO), a multiplicity of high level working groups of officials, summits, conferences and congresses and much informal contact and coordination exists. A century ago, few international summits were held; today these are in excess of 4000 annually." (Anthony McGrew in Held, ed, 2004, p 138).

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## 14.3 WORLD TRADE ORGANISATION (WTO)

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WTO, which came into being in 1995, is the institutional culmination of General Agreement on Trade and Tariffs (GATT), established in the wake of Second World War. Its overriding objective is to help trade 'flow smoothly, freely, fairly and predictably.' It is therefore Preamble to Marrakesh Agreement provides for the conduct of International Economic Relations in a manner as to:

- i) raise standard of living;
- ii) ensure full employment;
- iii) a large and steadily growing volume of real income and effective demand;
- iv) expand the production of trade in goods and services;
- v) allow for the optimal use of the world's resources in accordance with the objectives of sustainable development; and
- vi) preserve the environment and to enhance the means of doing so in a manner with their respective needs and concerns at different levels of economic development.

Besides above, its objective also recognizes "need for positive efforts designed to ensure that developing countries, and especially the least developed among them, secure a share in the growth in international trade commensurate with the needs of their economic development."

WTO also "contains a resolution to develop an integrated, more viable and reasonable multilateral trading system encompassing the ... GATT and the results of post trade liberalization efforts and all the results of the Uruguay Round of Multilateral Trade Negotiations." (Bagchi, 2000, p.12) More than merely being an extension of GATT, WTO is ever expansive in scope and covers all aspects of global trade—trades in goods, services

and products of innovations (i.e. intellectual property rights), investment measures, agricultural commodities, and textiles and clothing. The range of regulations and negotiations include primary products, manufactured goods, services and intellectual property rights.

### 14.3.1 Functions of WTO

In order to achieve its stated objectives, WTO performs the following function:

- i) Administering trade agreements
- ii) Acting as a forum for trade negotiations
- iii) Settling trade disputes
- iv) Reviewing national trade policies
- v) Assisting developing countries in trade policy issues, through technical assistance and training programmes
- vi) Cooperating with other international organizations.

Trade policy review and Dispute settlement are two important features of WTO. Trade Policy Review Board (TPRB) is responsible for reviewing trade policies of the member countries at regular intervals. "Its importance lies in the fact that: (i) it is a mechanism for **monitoring** changes in trade policies of member countries that may take place from time to time, (ii) it is a way of ensuring continuity in trade liberalization and, (iii) it is a mechanism to maintain transparency in trade policies of member countries." (Bhaumik, 2006, p. 36)

On the other hand, dispute settlement is a process of resolving trade conflicts, enforcing discipline and ensuring compliance with WTO rules of frame. **WTO** rules provide for the establishment of Dispute Settlement Body (DSB) with authority to adopt "panels and appellate body reports", maintain surveillance of implementation of rulings and recommendation." (Bagchi, p.109). The objective and framework of dispute settlement can be briefly stated as (i) ensuring security and predictability of multilateral trading system, (ii) to serve and preserve the rights and obligation of members under the covered Agreements, (iii) maintaining proper balance between rights and obligations of members (iv) achieving satisfactory settlement of the disputes. Mutually agreed solution is generally preferred. However, in the absence of agreed solution, the 'first of dispute settlement mechanism is to secure withdrawal for the measures concerned if found to be inconsistent with the provisions of covered Agreements'; and as last measure suspension of 'concessions' or other '**obligations**' are resorted to. As far as possible DSB acts in 'good faith' in resolving disputes. Legal significance of the dispute settlement lies in the fact that even the national Judiciary cannot block **WTO's** rulings. This provides WTO a supranational legal status; a multilateral legal institution empowered to enforce its decisions on member states.

### 14.3.2 Trade and Environment

**WTO** rules categorically recognize the necessary linkages between trade and environment. UN conference on Environment and Development, 1992 writes, "Environment and trade policies should be mutually supportive. An open multilateral trading system makes possible a more efficient allocation and use of resources and thereby contributes to an increase in production and incomes and to the lessening of demands on the environment. It thus provides additional resources needed for economic growth and improved environmental protection. A sound environment, on the other hand, provides the ecological and other resources needed to sustain growth and underpins the continuing expansion of trade." (Cited in Koul, 2005, p. 551) As a matter of fact, trade facilitation under **WTO** rules must **conform** to the objective of sustainable development without recourse to any kind of discrimination.

Article XX of **GATT** thus provides: "subject to the requirement that such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade, nothing in this Agreement shall be construed to prevent the adoption or enforcement by any contracting party of measures: (i) necessary to

protect human, animal or plant life or health; [and] (ii) relating to the conservation of exhaustible natural resources if such measures are made effective in conjunction with restrictions on domestic production or consumption." In pursuant to these objectives, Doha Declaration 2001 underlines the mutual supportiveness of trade and environment. The work programme adopted by this Declaration entrust the WTO's Committee on Trade and Environment (CTE) to pay particular attention to:

- i) "the effect of environmental measures on market access, especially in relation to developing countries, in particular the least developed among them, and those situations in which the elimination or reduction of trade restrictions and distortions would benefit trade, the environment and development;
- ii) the relevant provisions of the Agreement on Trade Related Aspects of Intellectual Property Rights; and
- iii) labeling requirements for environmental purposes". (See the WTO in Brief: Part I, Source <http://www.wto.org>)

Information exchange and capacity building are stated to be another important objectives of WTO on trade and environment. In fact, trade regulation is considered one of the important mechanisms of protecting environment. This has introduced the crucial notion of certificate trading in world economy.

### 14.3.3 Trade and Investment

One of the important objectives of WTO is to secure a more transparent, stable and predictable conditions among the member-states for cross-border investment, particularly foreign direct investment (FDI) in either of the forms such as infusion of equity capital, reinvested corporate joint venture, and set-borrowing through the company or affiliates. It is stated that volume of trade and economic growth is directly proportional to nature, extent and volume of currency flows and investment in core sectors of industrial growth and development. "FDI usually flows as a bundle of resources including, besides capital, production technology, organizational and managerial skills, marketing know-how, and even market access through the marketing networks of multinational enterprises... who undertake FDI. These skills tend to spill over to domestic enterprises in the host country. Therefore, FDI can be expected to contribute to growth more than proportionately as compared to domestic investment in the host country". (World Trade and Development Report 2003, p.44) Given the complexity of issues, WTO also recognizes the "needs for developing and least developed countries for enhanced support for technical assistance and capacity building in this area, including policy analysis and development so that they may better evaluate the implications of closer multilateral cooperation for development policies and objectives, and human and institutional development" (Doha Declaration, 2001, Para 21)

TRIMS (Trade related investment measures) agreement applies only to the trade in goods, and it has been designed in a manner as to provide a level playing field in foreign investment. Internal taxes and subsidies are beyond the purview of TRIMS Agreement. It prohibits local-content requirements (Local sourcing by an enterprise), trade balancing requirements, and restriction on the volume of imports to the amount of foreign exchange inflows, and restriction on export to the proportion of volume or value of local production. As a matter of fact, TRIMS is generally concerned with liberalizing trade and investment from quantitative restrictions and local content requirements. It allows discretion in applicability of member-states in the areas of "Local equity requirements, export obligations, participation of local employees in the foreign firms, remittance restrictions on the profit of foreign firm, foreign exchange restriction, controlling the use of imported inputs, product marketing requirements, technology transfer requirements, use of specific production technology, import restriction limiting the import of specified products..." (Bagchi, 2000, p, 36)

It would not be out of place to mention the fact that WTO efforts are directed towards the balancing of interests of host country and home country through the various measures of transparency and accountability in trade and investment. To this end, WTO negotiation is generally directed towards defining and redefining binding obligations on the parts of stakeholders and regular information exchange among them on such important components of trade and investment like transfer of technology, restrictive business practices, consumer and environmental protections, disclosures etc.

It is in this background, and precisely the reason, that competition policy has emerged as one of the important issues of trade liberalization. Competition policy seeks "to remedy different types of anti-competitive practices

including price-fixing and other cartel agreements, abuses of a dominant position or monopolizations, mergers that stifle competition and agreements between suppliers and distributors that foreclose markets to new competitors." (*World Trade and Development Report* 2003, p. 50)

In other words competition policy should aim at harmonization of substantive law, procedural requirements and enforcement practices with fairly institutionalized adjudication instruments

#### 14.3.4 Trade Related Intellectual Property Rights (TRIPs)

This brings us to the issue of intellectual property rights wherein patenting and copy-righting of innovations, discoveries, trademarks, geographical indications, layouts and designs, and undisclosed information are rule-framed in order to protect their ownership, an essential requirement of fair trade across geographical boundaries and an important means to the growth of private capital by way of sale and rental of copyrights. Some of the tenants of copyrights as agreed upon by WTO members can be briefly put as follows:

- i) Authorizing, as done in the case of literary works, the computer programming, cinematography,
- ii) Extending copyrights protection to expressions only. Thus excluding 'ideas, procedures, methods of operation and mathematical concepts' from such protection.
- iii) Recognizing the principle of supplementary rights i.e. rights related to the performance outcome of main rights. This is also known as 'neighboring rights', which include 'rights of performers, producers of sound recording or phonograms and broadcasters.' This prohibits unauthorized production, copying, recording and rebroadcasting of established copyholders programmes and production.
- iv) Registering trademarks as "any sign or combination of signs, capable of distinguishing the goods or services of one undertaking from those of other undertakings." This prevents use of such trademarks by other parties either by way of identical framing or dilution of signs or trademarks.
- v) Establishing and recognizing geographical origin of goods and commodities i.e. region of first origin.
- vi) Protecting independently created industrial designs and layouts.
- vii) Patenting technological inventions. It is based on three generally applied criteria of 'novelty, industrial applicability and involving an inventive step.'
- viii) Protecting trade secrets and know-how.

TRIPs agreement extends further to the areas of public health (promoting both access to existing medicines and research and development into new medicines), multilateral system of notification and registration of geographical indications for wines and spirits, biological diversity, protection of traditional knowledge and folklore etc. In nutshell, TRIPs, arrangement is ever evolving list of items, which are subject to transparency in registration, licensing, copyrights, protection, etc.

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## 14.4 EU, TRADE AND GLOBALIZATION

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As stated above regionalization is an in-built tendency of globalization process. It is further strengthened by WTO when it grants to its members a more favorable terms to their trades when members enter into a regional integration agreements under specific conditions. Regional integration in terms of trade, grants the members many waivers from the general rules of trade. It acts as impetus for bilateral, regional and multilateral accords. These accords "allowing members to grant preferences to other members that are denied to outsiders, have the potential to reconfigure trade flows as well as the working of the global trading system," writes *World Economic and Social Survey* 2005 (p.63). The new system of regional integration is in many ways qualitatively different from many such older systems of regional integration. The focus writes the *World Economic and Social Survey* 2005, "is now far broader and extends beyond trade in goods to encompass trade in services as well as investment protection, intellectual property rights and, in some cases, labour standards, environmental issues and some domestic regulations that may affect international trade. Further, trade facilitation measures are often an important element, in these schemes. In addition, the newer

schemes tend to be more outward looking, thus following a policy of "open regionalism" (Economic Commission for Latin America and the Caribbean, 1994). Finally, schemes are emerging that link developed and developing countries, such as North American Free Trade Agreement (NAFTA), The EU-Turkey Customs Union (1 January 1996) and the proposed Euro-Mediterranean economic area, to be formed by 2010"

EU's emerging clout in the world economy and its external policy must be understood through its enlargement policy and competition policy. Criteria for membership to EU are based on the strict assessment of the applicant country in terms of: (i) practising level of democracy, the rule of law, human rights and respect for minorities; (ii) a functioning market economy and the capacity to cope up with competitive pressures; and (iii) the ability to take on the obligations of membership; which in other words means capacity to apply effectively the EU's rules and policies. Enlargement of the union means extending the zone of stability and prosperity to new members. A single tariff rates and a common administrative norms and procedures, and single market access simplify dealings for their country operators within Europe and improve conditions for investment and trade. As a matter of fact EU since its inception has worked for "the gradual opening of global markets and rule based international trading system, offering the predictability needed to foster investment and greater choice." One finds an inextricable link between EU's internal and external policies. Creation of common custom regime, monetary union and a common trade policy have direct bearings upon its external economic relations. Economic and monetary union has led to the emergence of the Euro as the world's second most important international reserve and trade currency. Internal competition has led to the setting up of EU standards in key technologies around the world. Its norms and regulations are applied in China's motor industry, food safety, GSM standard for mobile communications, cordless phones and technologies that are delivering broadband to tens of millions of customers globally.

Over the years EU has provided to the developing countries preferential market access. In this regard, ACP and GSP are worth mentioning. Under its Generalized System of Preferences (GSP) EU provides preferential access to 178 developing countries to its market. The European Commission has devised fresh guidelines for the GSP for the period 2006-2015. The new GSP scheme was adopted on 27 June 2005 through European Council (EC) Resolution No. 98012005, applicable from 1.1.2006. These guidelines aim at specific targeting of the most vulnerable developing countries (shall economies, land-locked and low income countries). It introduces a simplified GSP system by reducing the prevailing five GSP arrangements to three "a general arrangement, the "Everything but Arms," giving duty-free and quota free access to the EU market to the world 50 poorest countries; and a new GSP+ giving tariff preferences to countries with special development needs." It also seeks to introduce the new system of GSP+ -where under special incentives shall be granted to those countries which adhere to international conventions on social rights, environmental protection and governance, including the fight against drug production and trafficking. The new GSP system also intends to introduce graduation programme. This in other words means gradual phasing out of GSP from "those beneficiaries that are highly competitive on the community market and no longer need the GSP to boost their exports to the EU". (See EU-India Update, Vol 4, No. 4, July-Aug 2004, p.8)

EU has also signed development cooperation treaty with African, Caribbean and Pacific countries (ACP). The basic aim of the Agreement is "to promote and expedite the economic, cultural and social development of the ACP states and to consolidate and diversify their relations [with the European Union and its member states] in a spirit of solidarity and mutual interest". EU-ACP agreement seeks to establish a new free trade area by 2010. Once this takes place "manufactured goods can be traded duty free on the trans-Mediterranean market, which will become the biggest free trade area in the world, embracing up to 800 million consumers." On estimation, 97% of ACP imports enter duty free in the EU market and tariff escalation is also virtually nonexistent. EU has adopted many measures to boost trade of the world's most Least Developed Countries. These measures include: "(i) granting duty free and quota free access for all export originating in the LDCs, except arms; (ii) a multilateral initiative to forego the use of anti-dumping instruments vis-à-vis LDCs provided that adequate safeguard are available to avoid circumvention. (iii) fast-track accession to the WTO for LDCs. (iv) Provision of enhanced trade related technical assistance and capacity building, including by a contribution to the Integrated Framework Trust Fund and assistance to help LDCs meet standard in export markets; (v) a programme of Action on accelerated action on HIV/AIDS, malaria and tuberculosis; (vi) a commitment to continued support for regional integration processes of LDCs. (vii) international support for more effective investment promotion in LDCs; and (viii) a commitment to identify WTO implementation

proposals that would bring particular benefits to LDCs". (Cited from European Union News, vol. 11, no. 3, May-June 2001). The overall impact of these measures has been that 79% of developing country exports to EU have entered duty free. Another statistics suggests that one fifth of all developing country exports are destined for the EU. This constitutes about 40% of the total EU imports. The Global monitoring report, 2004 had adjudged the EU "both as the most open market for exports from developing countries and the trading partner which has made the greatest efforts to reduce its average protection levels in their favour."

EU has also signed a large number of inter-regional or bilateral preferential agreements such as FTAs (Free Trade Areas) with EFTA (European Free Trade Association) with neighboring Central and East European countries and Baltic States, Custom Union with Turkey, Cyprus and Malta, The EU- Mercosur Interregional Framework Cooperation (IFCA) signed in 1995 etc. The net effect of all these bilateral and multilateral accords have been that the EU is gradually emerging and competing equally with USA with respect to the economy, environment and soft security, yet acknowledging the grand contribution of USA in helping European community to emerge as European Union. EU has also entered into sector specific (issue specific) arrangements with many of the important countries of the world. "These include cooperation with the US on homeland security issues and the fight against terrorism, energy dialogue with Russia and established partnership with other major producers and their organizations, human rights dialogue with many countries, as well as discussion of global sustainable development with China and India".

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## 14.5 EU AND DEVELOPMENT COOPERATION POLICY

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The primary and overarching objective of EU Development Policy as agreed upon by its members is the eradication of poverty in the context of sustainable development. It has further committed itself to eight Millennium Development Goals (MDGs) of eradication of extreme poverty and hunger, achievement of universal primary education, promotion of gender equality and empowerment of women, reduction in the mortality rate for children, improvement in the maternal health, combating HIV/AIDS, malaria and other diseases, ensuring environmental sustainability and working for global partnership for development. It further reaffirms its commitment to development by fine tuning of internal policy and externally through aid initiatives within the parameters of WTO, and continued support to LDCs to achieve more balanced global development. In its understanding of the issues, poverty includes all the areas in which people of either gender are deprived and perceived as incapacitated in different societies and local contexts. The core dimensions of poverty include economic, human, political, socio-cultural and protective capabilities. "Poverty relates to human capabilities such as consumption and food security, health, education rights, the ability to be heard, human security especially for the poor, dignity and decent work. Therefore combating poverty will only be successful if equal importance is given to investing in people (...in health and education...), the protection of natural resources...to secure rural livelihoods, and investing in wealth creation (with emphasis on issues such as entrepreneurship, job creation, access to credits, property rights and infrastructure) (see Para 11 of Joint Statement of European Parliament, Council, Commission, 2006/146101).

So far as the eradication of poverty in developing countries is concerned, EU development cooperation policy is centered around more effective aid system consisting of complementary components of project aid, sector programme support, sector and general budget support, harmonization aid and assistance in crisis prevention, civil society engagement in aid objective implementation, approximation of norms, standard and legislation in accordance with different WTO and UN provisions and mandates. In accordance with Paris Declaration, EU seeks to emphasize on an improved aid delivery mechanism which inter alia comprises of (i) "to provide all capacity building assistance through coordinated programmes with an increasing use of multi-donors engagements, (ii) to channel 50% of government to government assistance through country system... (iii) to avoid the establishment of any new project implementation units; and (iv) to reduce the number of uncoordinated missions by 50%". And in its assessment, the most effective instrument for developing countries is trade reform in terms with their broader national development plans. In this regard EU stresses upon "properly sequenced market opening, especially on products of export interests for developing countries, underpinned by an open, fair, equitable, rules-based multilateral trading system that takes into account the interests and concerns of the weaker nations. (It) will address the issues of special and differentiated treatment and preference erosion with a view to promote trade between developed countries and developing countries, as well as among developing countries." The joint statement further states "The EU will continue to promote the

adoption by all developed countries of quota free and tariff free access for LDCs... The EU will substantially reduce the level of trade distortion related to its support measures to the agricultural sector, and facilitate developing countries' agricultural development."

EU links development with globalization process to which it seeks to contribute by optimizing the benefits and sharing the costs more equitably for developing countries without which a durable and peaceful world order cannot be achieved. We can sum up this section by reiterating salient points of EU Development cooperation policy:

- 1) Poverty reduction across the countries particularly low-income and developing countries is at the centre of EU development cooperation
- 2) Development aid should target the trade facilitation of developing countries.
- 3) Globalization is a positive process for achieving an equitable world order.

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## 14.6 EU AND WTO

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EU is one of the key players in WTO and the main driving force behind Doha Development Agenda (DDA) and other multilateral trade negotiations. Its overwhelming presence in WTO is mainly because all the 27 member countries of EU share a common trade policy and in WTO EU acts as one single actor, where the European Commission negotiates trade agreements and represents the European interests on behalf of its member –states. It may be pointed out here that the legal basis for EU's trade Policy lies in Article 133 of European Community Treaty. And it is under the mandate of this article that the commission negotiates as one trading bloc in WTO. The EU's trade decisions in WTO are thoroughly structured decision taking into account the individual and collective interests of EU members. Article 133 constitutes a committee known as 133 committee consisting of the representatives from 25 member states and the European Commission. "It discusses the full range of trade policy issues affecting the community, from the strategic issues surrounding the launch of rounds of trade negotiations at the WTO to specific difficulties with the export of individual products, and considers the trade aspects of wider community policies in order to ensure consistency of policy. In this committee, the commission presents and secures endorsement of the member states on trade policy issues. The major formal decisions (for example agreement to launch or conclude negotiations are then confirmed by the council of Ministers" (Source: <http://ec.europa.eu/comm/trade/issue>). Though European Parliament has limited role to play in terms of trade Policy, "the assent of EP may be required for major trade ratifications, when covering more than trade. However, the commission favour greater parliamentary involvement in trade policy and hence consults and informs the Parliament as systematically as possible." It is in this way that EU coordinates itself in WTO. Now let us consider the EU policies and measures on some of the major trade issues negotiated and formalized as under WTO.

### 14.6.1 Non-Agricultural Products

EU commits itself to tariff elimination or reduction in tariff escalations on the following basis:

- 1) "Real new market access for all, with the largest opportunities for least developed countries (LDCs) through tariff and quota-free access offered by both developed and if possible most advanced developing countries;
- 2) Developing countries should contribute on the basis of their capacity and should benefit from flexibility in the application of reduction modalities. This translates into a higher effort for developed members that developing ones;
- 3) LDCs and other weak and vulnerable members in a similar situation, should not have to reduce their tariff, but just bind them;
- 4) Developing countries who have made efforts to open their markets should get recognition for this. On this basis the EU has proposed to apply a nonlinear Swiss formula, achieving deeper cuts on higher tariffs, as well as sectoral initiatives on labour-intensive products of export interest to developing countries, such as textiles, clothing and footwear, to bring tariff on these products as close to zero as possible." In brief, non-tariff barriers, in the analysis of EU, appear to be key to equity and growth particularly of developing countries.

## 14.6.2 Agriculture

EU endorses the Doha Declaration in this regard, which inter alia recognizes (i) establishment of a fair and market oriented system with the recognition of special and differential treatment for developing countries, (ii) substantial reduction in trade distorting domestic support in developed countries, (iii) improved market access and elimination of export subsidies. As a part of its commitment on AoA, EU has reduced the bound tariffs by 36% on average with a minimum tariff line cut of 15%. It has also granted minimum access for specific group of commodities so as to have 5% of the total consumption open to competition from imports. In cases like sugar the EU has used the special agricultural safeguard to provide additional protection. Thus export subsidies have been particularly binding in sugar, dairy and poultry sectors. Similarly EU has kept below the maximum ceiling imposed by AoA on Aggregate Measure for Support (Domestic Support Commitments). It is worth mentioning the fact that EU has emerged as the single largest importer of foodstuffs in the world. This is partly because of low tariff or zero tariff on non-competing commodities such as tropical products which the EU does not itself produce and also partly because of the preferential access given to imports from developing countries. According to WTO statistics, "43% of EU agricultural imports in 1999 were eligible for preferential access, and a further 24% imports entered under MFN arrangements where the tariff rate is 0%". On an average 30-35% EU imports enter its markets under preferential access arrangements. "The proportion of preferential imports from developing countries is higher, at 42%. For ACP countries not in the least developed countries category, the figure is 83 % for least developed countries, under the Everything but Arms Scheme, the figure is now 100%."

So far as the *trade in services* is concerned, EU has processed the requests of developing countries in accordance with their respective level of development, and particularly for LDCs, it has followed the sector specific approach with key focus on infrastructure services such as financial services, telecommunications and transport, EU's offer to developing countries within WTO's framework puts special emphasis on business services and 'on the temporary movement of people who provide particular services on a contractual basis in the EU'. EU has also advocated and support the developing countries' right to determine their own domestic regulation and safeguard public services. Also EU is key player in WTO's negotiation on Trade Facilitation, which aims at improved transit practices, delimiting red tape, and rectifying incompatible requirements in export markets. All these aim at improvement in the investment climate. In EU's approach, technical assistance and capacity building are two integral tools of helping developing countries to come to the terms and objective of WTO's rules and negotiations. Thus in its understanding crucial element of capacity building for developing countries is to "make trade an integral part of their national development policies, programmes, and poverty reduction strategies". For extending technical assistance to developing countries, WTO has set up a "Global Trust Fund to which EU's contribution approximates to over 60% of the total funds. EU has further committed itself in supporting the Integrated Framework (IF) for the least developed countries, "a multi agency, multi-donor program that assists the least developed countries to expand their participation in the global economy." EU's firm support to developing countries is necessarily guided by its conviction that: (i) globalization is real opportunity for growth and higher living standards across the world; (ii) multilateral governance is needed to ensure that the globalization benefits are distributed fairly and equitably; (iii) most favored nation treatment within WTO framework to continue till the world society achieve a manageable parity among them; (iv) striking balance between protectionism and unbridled opening up of markets; and (v) unifying bond in common global needs, threat perception and social security.

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## 14.7 EU AND ENVIRONMENTAL ISSUES

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Over the years, environment has assumed critical salience in the international dialogue on trade and sustainable development. Trade is considered as most pervasive means of addressing to such environmental issues like climate change, protection of ozone layer, waste disposal, energy and natural resources, bio-diversity preservation and protection. Besides social and economic aspects of the issues concerned, certificate trading is considered best security towards environmental protection and management. There are three main aspects of interrelationship between trade and environment. They are: "(i) the environmental impact of trade and trade policies; (ii) the potential effects of environmental measures on trade flows; and (iii) the use of trade measures to achieve environmental policy aims." In other words, there are unavoidable and (non) negotiable

linkages between trade, environment and sustainable development. This is what EU has emphasized in several of the WTO's rounds on environment. It has emphasized that "trade round should maximize potential for positive synergies between trade liberalization, environmental protection and economic and social development". It is on this threshold that the core objectives of EU environment policy seeks to:

- 1) Confront global environmental problem through support for existing multilateral agreement (e.g. climate change, biodiversity, desertification, chemicals) and international processes (e.g. forests).
- 2) Promote the environmental dimension of sustainable development worldwide.
- 3) Address specific national/regional concerns for resource protection and equitable distribution, using country strategies and bilateral/regional agreements.
- 4) Foster greater political and public environmental responsibility through political dialogue, institutional and civil society supports.
- 5) Ensure mainstreaming of environmental and sustainability considerations in all relevant policy areas at the international level." (Source: EC/SEC/2002) 271: Environmental Integration in the External Policies of the GAC).

There cannot be any uniform approach to addressing environmental issues bilaterally and multilaterally. Thus, dialogue with industrialized countries should place more emphasis on alignment of approaches in advance of international environmental negotiations and on "discussions on the nature of burden-sharing arrangements in line with the principle of differentiated responsibility", but with developing countries more on "identifying and discussing the environmental problems that hinder their development, and seeking ways to assist them with effective negotiation and implementation of MEAs, with a particular emphasis on capacity building and institutional strengthening needs."

EU has always pushed the **factoral** linkage of environment with trade and investment on the one hand and regional environmental security on the other. It has followed two-fold approach in this regard. It has signed bilateral negotiation with countries like Russia, USA, China, India, and secondly, it has multilaterally supported the MEAs implementation and execution. EU has broadened the scope of environmental integration in all areas of peace, security and disarmament. Therefore, the core objectives for EU's external policy include many cross-cutting issues such as:

- 1) Promotion "of the environmental dimensions in all areas of post-conflict reconstruction from institutional and civil society support to infrastructure projects; support environment activities".
- 2) Making sure that the "environmental factors are fully addressed in conflict prevention activities, working to reduce tensions over access to and use of natural resources."
- 3) Making componential improvements in "human rights, democratization and governance for environmental ends."
- 4) Effectivizing and "reinforcement of the current international institutional framework for the environment."

For environmental protection, other key instruments of EU's policy includes: (i) making environmental certification as essential element of EU's trade policy; (ii) reducing or eliminating tariff and non tariff **barriers** to environmental goods and services; (iii) eco-labeling; (iv) extension of technical and other expert support to developing countries towards better environment; (v) providing additional incentive under its GSP programmes for the efforts made by developing countries domestically; (vi) regulating investment conditions towards environmental ends; (vii) environmental impact of trade to be addressed within the ambit of article XX of GATT, the sanitary and **phytosanitary** (SPS) agreements and articles, agreement on Technical Barriers to Trade, **TRIPs** and biodiversity and traditional knowledge etc. For better international environmental governance, EU has advanced the following proposals; (i) strengthening of the Global Ministerial Environmental Forum as the cornerstones of a coherent international environmental governance system; (ii) enhancing synergies and

linkage between existing MEAs by a thematic, functional **and/or** regional clustering; (iii) providing UNEP with adequate, predictable and stable finances; (iv) promoting donor coordination between EU Member States and with third donors in international financial organizations; (v) supporting integration of environmental considerations within the international institutions' activities (systematic environmental impact assessment of financing programmes, adoption of guidelines for environmentally sound financing projects, on the model of the OECD Recommendation on Common Approaches on Environment and officially supported export-credits); and (vi) supporting the establishment of environmental management systems in institutions engaged in international cooperation". (Source: SEC (2002) 271)

### 14.7.1 EU's Initiatives on Climate Changes

Evidences show that during last five decades earth' average surface temperature has risen by **0.6°C**, triggering serious problems for life forms on the earth. Much of the attributed reasons for global **warming** include, deforestation and burning of fossil fuels, causing raised level of CO<sub>2</sub> in the environment. EU has made concerted effort in getting through two international treaties on the subject- United Nations Framework Convention on Climate Change and its Kyoto Protocol. Under the protocol developed countries have committed themselves to reducing their emission of six key greenhouse gases by at least 5%. The group targets include 8% cut by Switzerland, Central and East European States, and EU, 7% by the US; and 6% by Canada, Hungary, Japan and Poland, Russia etc. Further each country's emission target to be achieved by the period 2008-12. It further provides for establishing an international "emissions trading" allowing industrialized countries to buy and sell emissions credits amongst themselves. This includes setting up **emission-reduction** units in developed and developing countries. It is on the basis of above protocol that the EU has approved its own European Climate Change Programme (ECCP), minutely regulating emission norms in EU's countries. In the first phase of ECCP, total Green House Gases emission in the EU-25 has decreased by about 5% between 1990-2003. Average emission of six green house gasses remain below 3%. The second phase of ECCP particularly concentrates on regulating Euro norms in transport sector (including aviation and vehicle emissions), carbon capture and storage and the role of the EU in reducing vulnerability and promoting adaptation.

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## 14.8 SUMMARY

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What we have learnt from above analysis that globalization multilateral governance and regional integration are mutually reinforcing processes converging on the establishment of equity and justice through trade liberalization in the world society. And it is in this aspect that EU has emerged as key player in the WTO system. EU's trade liberalizing efforts and special targeting of development cooperation policy has multiple advantages for its import-export promotion and emergence of it as probably one of the powerful political and economic bloc in the world. Linking of trade with environment, democracy and human **rights** standardizes globalization as positive process wherein meaning of governance takes a quantitative and qualitative leap. Working of monopoly, as one has witnessed, with the working of Breton Woods Institutions is being democratically tempered and replaced with the notion of equity and justice in the emerging liberal-global order.

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## 14.9 EXERCISES

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- 1) How has Globalization transformed the notion of Governance?
- 2) Describe the functions and role of **WTO** in International Economic Relations
- 3) Evaluate the role being played by European Union in globalized trade.
- 4) Analyse the European union's Development Policy aimed at eradication of poverty.
- 5) Write an essay on European unions stands on agricultural and non-agricultural issues in **WTO** negotiations.
- 6) Assess European union's initiatives and role in environmental protection and climate change.

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