The Centre for International Governance Innovation

THE CARIBBEAN PAPERS

A Project on Caribbean Economic Governance

The Economic Partnership Agreement (EPA): Towards a New Era for Caribbean Trade

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Caribbean Paper No. 10
September 2010

An electronic version of this publication is available for download at:
www.cigionline.org

Addressing International Governance Challenges

About the Caribbean Economic Governance Project

This project convened researchers and leaders within the private and public sectors to examine and provide substantive answers and policy prescriptions to current economic governance challenges facing the Caribbean region. The papers were initially presented at CIGI workshops, where the authors benefited from extensive comments and discussion on their work. This series presents and discusses policy issues pertaining to trade, investment, human capital, the fiscal outlook, public sector management practices and other issues relevant to the Caribbean region's economic future.

This paper is published jointly with the Caribbean Policy Research Institute (CaPRI), a Caribbean-wide think tank that is contributing research and policy expertise to CIGI's Caribbean Economic Governance project. www.capricaribbean.org

CIGI gratefully acknowledges the Government of Ontario's contribution to this project.

ISSN 1915-6413 (Print)
ISSN 1915-6421 (Online)

Summary

The Economic Partnership Agreement (EPA) signed in 2008 signalled a new era of trade relations between the European Union (EU) and the Caribbean Forum of African, Caribbean and Pacific States (CARIFORUM). Caribbean exporters previously had greater duty-free access to the EU market than European exporters enjoyed in the Caribbean, along with quotas that enabled them to avoid price competition with rivals from outside the Lomé ACP (Africa, Caribbean and Pacific) bloc.

With the advent of the World Trade Organization (WTO) in 1995, the EU and the Caribbean were forced to negotiate new terms of engagement. The EPA represented a shift towards a more liberal trading regime in which greater reciprocity is the norm.

Critics of the EPA believe the new trade regime will inhibit the development of new (particularly manufacturing) industries in the region and worsen the fiscal accounts of Caribbean countries. This paper, however, concludes that the aggregate negative impact of the EPA on Caribbean states will be modest, although it will likely produce challenges for smaller Caribbean governments. In particular, this paper emphasizes that the EPA will not be effective without the successful implementation and operation of the Caribbean Single Market Economy (CSME), which requires Caribbean governments to plan and coordinate economic activities together. The EPA provides the opportunity for the region to build the framework that will allow it to compete in a liberalized global economy, where a competitive environment is necessary for survival.

Acronyms and Abbreviations

CaPRI	Caribbean Policy Research Institute
CARICOM	Caribbean Community
CARIFORUM	Caribbean Forum of African, Caribbean and Pacific States
CRNM	Caribbean Regional Negotiating Machinery
CSME	Caribbean Single Market Economy
EPA	Economic Partnership Agreement
EU	European Union
EU-ACP	European Union-Africa, Caribbean, Pacific
FTA	Free Trade Agreement
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
NGO	Non-governmental organization
OECD	Organisation for Economic Co-operation and Development
OECS	Organization of Eastern Caribbean States
WTO	World Trade Organization

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Introduction

International trade plays a significant role in small economies.[1] Until the early twenty-first century, however, the dependence of English-speaking Caribbean countries on international trade was partially mitigated by the share of their trade governed by preferential market access, primarily to member countries of the Organisation for Economic Co-operation and Development (OECD), through a succession of trade agreements. There is broad consensus among policy makers and analysts that "preferential programmes have been crucial to the economic development of many Caribbean Community (CARICOM) countries" (Braveboy-Wagner, 2007; Byron and Lewis, 2007).[2] The argument has also been made that the cost of preferences to the developed world is so miniscule and preferences were so essential to the Caribbean countries that, rather than eliminate them, preferences should have been altered to improve their efficacy, while aid and technical assistance should address supply rigidities that preclude export growth and competitiveness (Bernal, 2005). Critics, however, suggest that preferential agreements served to retard economic growth and development in the English-speaking Caribbean countries that were the ostensible beneficiaries of such agreements (Thorburn and Morris, 2007). The World Bank (2005: 76) stated:

> Empirical evidence shows that trade preferences do not help overall trade performance even as they can affect the pattern of trade, and this has also been seen in the specific case of the Caribbean. Caribbean exports of apparel, sugar, bananas and several other agro-based products have been dependent on preferences, and have suffered as preferences have eroded. Despite preferences, quotas have often not been filled.
>
> While preferences may have encouraged export growth in certain sectors in the Caribbean, it is not clear that they have served long-run interests. Empirical evidence does not show a positive correlation between aggregate trade and trade preferences [...]. In fact exports tend to take off only after countries are removed from preference schemes.

Another effect of the Caribbean's reliance on trade preferences was a "crowding out" of innovation and entrepreneurship and the dominance of an economic model that empowered the government to act as "master strategist" (DFID, 2008a: 07). While preferences may protect domestic industries, they may also stifle competitiveness in some sectors.

With the advent of the WTO in 1995, however, preferences were found to be incompatible with the rules governing trade under the new trade regime. In particular, a challenge mounted by Central American banana-producing countries to the EU-ACP (Africa, Caribbean and Pacific) banana regime led a WTO panel to determine that the arrangement was incompatible with WTO rules because it violated the fundamental principles of non-discrimination and reciprocity.[3] The Cotonou Agreement, signed in Benin in 2000, addressed these concerns by requesting that the parties conclude WTO-compatible trading agreements, involving the progressive removal of barriers to trade between them and enhancing cooperation in all areas relevant to trade (European Commission, 2000).

The end to preferences was one of many factors that forced a shift in emphasis in the trade policies of the English-speaking Caribbean from a focus on traditional primary products to include the export of services.[4] Nevertheless, while many countries in the region have sought to diversify their trading relationships and lessen dependence on existing arrangements, progress amounting to noticeable gains in economic and social development indicators has not followed.

The region's imperfect adaptation to the new liberalized global economy is largely a result of its small size, lack of capacity, weak institutions, poor customs administration and other supply-side structural impediments. At the same time, the region remains heavily dependent on

1 We acknowledge the input provided by Sir Ronald Sanders, Henry Gill, Jessica Byron, Paul Sutton, Tony Heron, Stephen Lande, Cynthia Barrow, Indianna Minto-Coy and three anonymous reviewers, all of whom read and commented on earlier drafts of this paper.

2 CARICOM refers to members of the Caribbean Community, consisting of Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Trinidad and Tobago, and Suriname.

3 In particular, the EU agreement with ACP did not fulfill the requirement for a free trade agreement under Article XXIV of the General Agreement on Tariffs and Trade (GATT), which requires that, in free trade areas (FTAs) and customs unions, trade preferences are permitted only when duties and other restrictive regulations are eliminated on "substantially all the trade" between the constituent territories. Thus, preferences in an FTA must be reciprocal.

4 Another important rationale for many Caribbean governments was that many of their exports, especially of sugar, were subsidized heavily to keep them alive — indeed, both Trinidad and Tobago and St. Kitts and Nevis were forced to close their sugar industries.

imports of virtually all consumption categories, from foodstuffs and light and heavy machinery to services such as banking and telecommunications. Although the United States is now a larger factor — and Europe a lesser one — in the imports and exports of CARICOM states, exports are still concentrated in the same commodities as under the colonial trading regime. For example, exports to the EU are dominated by oil (15 percent), bauxite and alumina (6.9 percent), rum (6.2 percent), sugar (5.9 percent) and bananas (5.3 percent) (Braveboy-Wagner, 2007). Export growth has gradually shifted to tourism, now the dominant services income earner, however, efforts must be made at diversification, even though tourism as a product itself has become commoditized (DFID, 2008b: 27). Caribbean countries, moreover, generally import more goods and services (in dollar terms) than they export, with the result that the estimated ratio of trade to gross domestic product (GDP) of these countries averages 111.3 (UNCTAD, 2004).

The Advent of the Economic Partnership Agreement

The EU's response to the WTO's determination on bananas was to break up the ACP group into six regional groupings, or free trade areas (FTAs), of which CARICOM plus the Dominican Republic (CARIFORUM) was one. The critical demand for any new agreement was that the non-reciprocal element of traditional preferential agreements be jettisoned so that, henceforth, whatever benefits CARIFORUM countries enjoyed in the EU market would now have to be shared by EU members in CARIFORUM.

To that end, on October 15, 2008, an Economic Partnership Agreement (EPA) was signed between most CARIFORUM countries and the EU (European Commission, 2008). The EPA is a regional trade agreement establishing, among other areas of cooperation, a reciprocal, WTO-compatible free trade area for goods and services. To comply fully with General Agreement on Trade and Tariffs (GATT) Article XXIV, duties and other restrictive regulations of commerce must be eliminated on "substantially all trade"[5] between the parties in products originating in such territories.

The application and scope of the EPA are more comprehensive than those of previous agreements. It expands the former commitments on market access from trade in goods to a range of additional subject areas such as government procurement, investment, trade facilitation, competition policy and intellectual property rights. Importantly, the agreement also includes a services agreement that is compatible with the General Agreement on Trade in Services (GATS) Article V. Now, except for rice, sugar and bananas, as of January 1, 2008, all products from CARIFORUM states have enjoyed duty-free, quota-free access to the EU market.

The purpose of this paper is to describe the key provisions of the EPA, to discuss the main criticisms of the agreement and to determine the impact that the agreement will have on the CARIFORUM countries. Since CARIFORUM comprises both low- and middle-income economies of various sizes with differing amounts and types of natural resources, our analysis seeks to anticipate the extent to which trade patterns and production will shift to accommodate the new trading arrangement in four countries.[6] Further, the analysis will measure economic costs both sectorally and at the macro level, and estimate the long-term effect on economic growth for each.

We conclude that, if the region's governments are to make the transition to the emergent, WTO-compliant trade regime, they will have to put aside their policy differences and aim for more effective policy coordination in the interests of future development. We also suggest that Caribbean integration has been hindered, not by structural arrangements which the EPA will now alter, but by lax movement in that direction by Caribbean governments. In that respect, change for Caribbean countries will start closer to home with the initiative their governments bring to their international relations and to the capacity-building needed to realize the benefits of trade.

The larger economies of the region will be in a better position to diversify their economies than the very small ones, but if governments can channel resources into the areas where they can be most productive, the overall welfare of the region will improve. With the free movement of capital and labour, successful implementation of the agreement will result in productive activities at the regional level rather than at the national level, which would lead to greater specialization in production based on competitive advantage. In short, the EPA provides the opportunity for the region to make giant steps into an uncertain terrain with some kind of framework in which to practice, although we note that the track record of Caribbean governments does not inspire confidence.

5 Quantitatively, the FTA should encompass about 90 percent of current trade and 90 percent of the tariff lines; qualitatively, no major sector of trade should be excluded from the FTA.

6 Trinidad and Tobago's deposits of oil and gas make it an exception in much of the discussion here, but its agricultural products face problems similar to those of other Caribbean countries.

The Key Provisions of the EPA

Trade Measures

Market access is the main focus of the EPA. Unlike its predecessors, it includes services and other aspects of trade-related issues such as intellectual property, innovation, government procurement, competition, protection of personal data, the environment and social issues. Wider market access is expected to expand investment into non-traditional sectors through diversification of exports and the development of an industrial base, resulting in higher added-value exports from the region.

The market access offered under the EPA removes quota and tariff limitations on 98 percent of all goods from CARIFORUM countries into the EU. This provides duty-free, quota-free access for agricultural products such as beef, dairy, cereals, fruits and vegetables that previously incurred tariffs. Custom duties have been removed from sugar and rice, while the quota aspect for sugar has been removed since October 2009 and sugar will be eliminated on a phased basis, ending in 2010. Bananas will also enjoy immediate duty-free, quota-free access to the EU market in a manner that negates some of the objections of the WTO Dispute Settlement Panel on the Banana Protocol.[7]

Rules of origin specify the criteria for a product to be considered as locally produced and to thereby qualify for preferential treatment. The EPA's guidelines on rules of origin create new opportunities for CARIFORUM countries to extract more value added through further processing within the region before the final product is exported to the EU. At a basic level, the rules specify that only goods produced in a country, using only materials from that country or products that have been handled under special conditions by regulation in that country, qualify as originating products. Given that these are small states with limited endowments and productive capacity, it is likely that a large share of the inputs required for the production process would originate beyond their boundaries. As a result, the EPA offers improved rules of origin benefits over those in previous agreements. These changes affect value-added conditions, the discontinuance of the certification of origin and verification procedures.

Several aspects of the rules of origin have changed under the EPA. One such aspect allows for changes in the treatment of some sectors affected by particular conditions governing production and manufacture; this affects mainly textiles, clothing, fish and some agricultural products. The changes also allow for some "permanent derogation" from the primary rules through an exception called "cumulation," which allows for the broadening of the concept of the originating status of materials and sufficient working or processing. Under the EPA, materials originating in some of CARIFORUM's neighbouring developing countries will be considered as originating in a CARIFORUM state. Finally, the concept of "wholly owned" has been broadened beyond products extracted or grown locally to include sea fishing or other products taken from the sea by local vessels and local fishermen.

The service provisions are of particular importance since the Caribbean is the only member region of the ACP grouping that is a net supplier of services. The benefits negotiated under the EPA include agreements that cover investment, trade in services and electronic commerce. The commitments under the EPA cover a range of sectors in which CARIFORUM firms have shown distinct comparative advantage, such as tourism, investment and entertainment services. The commitments on services differ from those on trade in that the agreement provides for different modes of supply to access or deliver services.[8] The market access commitments allow for a generous asymmetry in the level of services liberalization. The EU has undertaken to liberalize 94 percent of the list of services sectors and subsectors, while CARIFORUM countries will liberalize only some 65 to 75 percent of their trade in services. Further, a number of specific issues have been addressed, such as barriers to CARIFORUM investment in the EU, the cross-border supply of services, limitations on the number of suppliers and volume of transactions, and access for Caribbean business professionals.

To ensure a higher level of transparency and equity in the treatment of EU suppliers, the EU insists on a substantial procurement chapter in all bilateral agreements it negotiates. Thus, in the EPA, the commitments negotiated on government procurement emphasize encouraging transparency and the creation

7 In 1994 the EU preferential regime to ACP countries was found to be illegal under international law; see EEC (1995).

8 It was recognized in the Uruguay Round of multilateral trade negotiations that the delivery of services was not limited to trade across borders, but that proximity to the user was important in the production and delivery of services. In the GATS, the method of delivery of services was divided in four modes: mode 1, cross-border supply, whereby consumers move outside their home to consume the services; mode 2, consumption abroad, whereby suppliers move to the territory of the consumer to provide the service; mode 3, commercial presence, where suppliers serve a foreign market by setting up local operations through FDI; and mode 4, presence of natural persons, where persons travel abroad to provide the service.

and strengthening of regional procurement markets. One benefit to the Caribbean of such rules is that they will give member governments a tool with which to reduce corruption and ensure the proper use of resources through verification and administrative controls. This will involve the exchange of information and experience on best practices and regulatory frameworks, the establishment of appropriate systems and mechanisms to facilitate compliance with the agreement and the creation of a regional online facility for information-gathering and sharing about tendering opportunities.

In the past, ACP countries have found it difficult to take advantage of preferential market access opportunities in the EU because of technical barriers to trade and sanitary and phyto-sanitary standards. Generally, the EU has strict rules on health and safety standards that go beyond WTO requirements. The EPA, however, provides CARIFORUM countries the cooperation and assistance necessary to meet the standards set by the EU import regime.

Finally, there are provisions for customs and trade facilitation. The EPA mandates cooperation to ensure that relevant legislation and procedures, and the administrative capacities of the relevant administrations, create an environment in which to do business and to guarantee the unhindered movement of goods across borders. Businesses suffer significant losses due to delays at borders, complicated and unnecessary documentation requirements, and inadequate use of technology to carry out government procedures. These costs can sometimes be greater than the total of all tariffs combined.

Non-trade Provisions

The EPA has sufficient breadth to encompass non-trade issues as well, including two of particular relevance to the Caribbean: regional integration and the promotion of development.

For the Caribbean, the regional integration component is the most important element of the EPA. Problems have bedevilled CARICOM's attempts at integration from its inception in 1965, and have not abated despite the establishment of the Caribbean Single Market and Economy (CSME) in 2005. Continued restrictions on the full and free movement of goods have obstructed the full exploitation of the letter and spirit of Caribbean regional integration, due to the insistence of countries on applying restrictions on intra-regional trade by means of unauthorized import duties, export duties, discriminatory internal taxes, fiscal charges, import licences and quantitative restrictions. Other challenges to regional integration include the right of establishment; the free movement of capital, services and labour; inconsistency in the application of the Common External Tariff; and the absence of policy coordination and convergence. The obstacles that have obstructed deeper regional integration will, therefore, likely be encountered in the EPA. As a result, some regional trade experts argue that the successful implementation of the EPA demands attention be paid to the removal of these obstructions, while others contend, in contrast, that the EPA will be the guiding force for the integration process.

The EPA is attempting to address these issues by providing funding for the creation of an institutional framework for regional integration, technical assistance, capacity building (including support for trade facilitation) and investment in trade-related infrastructure, which should ensure that trade measures are implemented within a framework that leads to sustainable growth. Technical assistance will benefit CARIFORUM governments in the areas of policy harmonization, legislative reform and tax reform, while the private sector will benefit in the areas of competitiveness and research and development.

The promotion of regional policies within the EPA framework clearly implies that the CSME is integral to the implementation of the EPA process. Indeed, the EPA presents an opportunity for a deeper and smoother integration through the CSME than what has been accomplished so far through CARICOM, although it has been argued that being locked into an EPA development path diminishes the scope for regional integration with detrimental effects on the region (see Thomas, 2008). Yet the full implementation of the CSME would satisfy only the customs union requirement of GATT Article XXIV, which also requires that duties and other restrictive regulations on commerce must be eliminated on "substantially all trade" on goods originating in the territories of the FTA, and the duties and other regulations that are applied by each member of the FTA to trade with territories outside the FTA must be identical. The EPA will go a long way toward facilitating the CARIFORUM countries meet such requirements.

The development cooperation component of the EPA also seeks to address weak logistical capacity, lack of productive capacity and inadequate transportation infrastructure. The development cooperation component of the EPA can, theoretically, be channelled into these areas to encourage diversification from traditional export activities and promote higher valued-added production. Infrastructure development should also include the capacity to handle waste products, provide basic services and introduce new technologies that will reduce the environmental effects of further processing.

The Campaign Against the EPA

A history of trade preferences and the failure of most Caribbean governments to take advantage of these trade arrangements to alter the structure of their countries' exports provoked opposition to the lifting of trade preferences. On the face of it, the vested interests behind the outgoing trade regime — the regime of guaranteed market access at preferential prices and the protection of the domestic economy — ought to have been easily identifiable. They would have included the producers of the main export goods and services to have benefited from preferential trading arrangements — namely, sugar and banana producers and the organizations, such as trade and workers unions, that represented their respective labour interests. The other dominant stakeholders ought to have been domestic producers who ostensibly would be threatened by new, more competitive foreign producers and service providers. After consultations with domestic producers and private sector interests, however, many domestic producers and industries remain protected and will not be subject to tariff liberalization (at least not under the EPA). Finally, governments themselves have been beneficiaries of the existing trade regime because they have been able to collect revenue on tariffs fairly efficiently; the loss of some tariff revenue may compel some to raise taxes on consumption or income to compensate for fiscal losses, a point that the EPA's critics have cited as a potential major drawback of the accord.

In fact, with the exception of some light manufacturing sectors in Trinidad and Tobago and Barbados, there are few sectors that are still protected from competition from imports or foreign service providers in the English-speaking Caribbean. In addition, producers of traditional primary products — where preference regimes were already in the process of being dismantled — are either accommodated still under Cotonou or have unilaterally removed themselves from the EU market. For example, Jamaica Producers, the island's main banana-producing company, ended its production of bananas for export in 2008 because of severe losses resulting not from the challenge to the banana regime, but to a change in weather patterns that saw three devastating hurricanes in four years, wiping out the crop each time. In Trinidad and Tobago, the government unilaterally closed down much of its sugar production in 2007, providing redundancy packages to sugar farmers. St. Kitts and Nevis took a similar decision after the close of the 2005 crop.

Two other areas where liberalization might be resisted are landholdings and fiscal revenues. Extant alien landholding provisions are still largely intact, and there is provision for technical assistance in the area of fiscal reform and transition to other non-tariff revenues in English-speaking Caribbean states, as well as a long transition period to facilitate the fiscal implications of the new tariff structures.

In light of the seemingly limited set of interests that are obviously threatened by the EPA, one might expect its adoption to have been relatively uncontroversial. Indeed, its negotiators can be forgiven for having thought it would be so, especially since the limited available research on the likely economic impacts of the EPA seemed to point to modest effects (see Taylor, 2007). Moreover, when negotiators launched into public consultations about the EPA, there was initially little indication that the accord would become so controversial.

Consultations

Extensive consultations before and during the EPA negotiations were held throughout the region by groups that included ministries of foreign affairs and foreign trade and the Caribbean Regional Negotiating Machinery (CRNM). Consultations were also held with private sector business entities, union groups and other civil society organizations and representatives. The controversy surrounding the debate on this public policy has been the most vibrant in recent English-speaking Caribbean history.[9] The CRNM itself stated, however, that there was "generally weak stakeholder responsiveness to queries, insufficient inter-ministerial coordination at the national level" and a need for improvement in the consultation with "certain categories of stakeholders" (CRNM, 2007). According to Byron and Lewis (2007):

> The level or form of organization [of consultations was] not uniform across the CARIFORUM territories with some places evidencing minimal organization at the national level. Generally, in the OECS [Organization of Eastern Caribbean States] countries, there [was] less active involvement

9 Communication with CRNM official, 2008. Critics contend, however, that Caribbean governments largely withheld technical information, so that the consultation process was one in which the CRNM largely communicated to its audience (Sir Ronald Sanders, personal communication, February 20, 2009).

> of non-state actors with engagement taking place primarily between the sectors/industries that were traditionally involved in exporting to the European Union and the governments.

There are strong signs that consultations at the national level have been limited and uneven — this, despite the CRNM's conduct of national consultations in all CARIFORUM countries except the Bahamas between March and July 2006. Low levels of awareness of, or involvement in, the EPA process are demonstrated by a significant number of non-state actors across the Caribbean. The most involved and most knowledgeable actors are those with traditional trading interests in the EU and/or the larger private sector players. Even within the public sector, engagement in the EPA process is restricted to a narrow range of ministries and agencies. This is partly due to weak information dissemination systems in state and non-state organizations. It is also due, especially in some quarters of the private sector, to trade negotiations fatigue which set in after considerable mobilization and effort during a decade of [Free Trade Area of the Americas] negotiations which ended in failure. Some actors view North American markets as being more crucial and more accessible for them than the European market. Finally, there seems to have been a number of different non-governmental consultations taking place in 2005-2006 with some degree of disconnect among these processes.

Nonetheless, toward the end of 2007, a strong current of opinion — consisting largely of non-governmental organizations (NGOs), academics, religious organizations and umbrella union groups — began to argue, sometimes forcefully, that the EPA would be detrimental to the region. Yet, while many statements protesting the EPA were signed and transmitted to CARICOM heads of government, there was no concerted private sector participation in the sustained and vocal anti-EPA movement.

The EPA Debate in the Political Economy Tradition of the English-speaking Caribbean

Objections to the EPA may have reflected a philosophical opposition to the changing identity of the Caribbean that some intellectuals saw the accord as effecting. The struggle over the EPA may have become so spirited because it represented a last stand in defence of a declining trade regime and of the intellectual tradition that underpinned it. Indeed, the debate over the EPA was not merely among economists, producers and intellectuals over a trade agreement, but represented for many of the Caribbean intellectual elite the battle over the very traditions upon which they had built career edifices, as well as over the Caribbean identity in the global political economy. We are referring specifically here to widely publicized arguments put forward in the latter part of 2007 and into 2008 by Norman Girvan, Havelock Brewster, Shridath Ramphal and others — typically, leading thinkers of Caribbean political economy who, in earlier years, had exercised a good deal of influence over policy-making in several Caribbean countries as advisers or technocrats. This "anti-EPA lobby" gained traction by galvanizing commentary and debate among Caribbean (and Caribbeanist) academics, intellectuals and civil society leaders. While there were some counter-arguments, the anti-EPA lobby successfully rallied adherents to its cause. It is important to note, however, that their protests, while heard at the highest decision-making levels (for example, Girvan and Brewster were given an audience at a CARICOM heads of government meeting in 2008), did not substantially alter the terms of the agreement or dissuade any Caribbean government from signing it.

The depth of sentiment regarding the EPA that was evinced in the public debate, particularly by the EPA's detractors, can be properly understood only in the context of a paradigm that animated the ideological and political orientation of a generation of politicians and intellectuals, and their own struggle against what they saw as the pernicious and lasting legacy of enslavement, imperialism and neo-colonialism. Given a belief that historical trade relationships enriched imperial countries at the expense of the colonies, the EPA represented a departure from the status quo whereby Europe would rectify historical imbalances through the transfers of resources that preferential arrangements made possible. As then Barbados Foreign Minister Chris Sinckler stated at the signing of the EPA on October 15, 2008, "Our signature of this agreement today represents a fundamental signal that Caribbean countries are maturely and decidedly breaking with a long loved past that in fact has now past" (Sinckler, 2008).[10]

David Jessop (2008), in his commentary on the debate over the EPA, alludes to a "philosophical divide," based on the different (and differing) positions taken by the various sides, that pertains to the direction in which the region and the integration process are heading. This divide, however, has to be understood in terms of the intellectual debates

10 Prior to his appointment as foreign minister, a post from which he was shuffled shortly thereafter, Mr. Sinckler was one of the chief critics of the EPA negotiations in his capacity as director of the Caribbean Policy Development Centre, an umbrella organization for development-oriented NGOs.

in the Caribbean about trade and the world economy that have occurred over the past 40 years. Indeed, an important dimension to the anti-EPA lobby's beliefs is scepticism that there is any such thing as "free" trade. Those who opposed the EPA were not convinced that export sector growth translates to increases in economic and/or social development in exporting countries, particularly in trade relationships between developing and developed countries. Havelock Brewster, one of the most radical voices in the anti-EPA lobby, declared that "reciprocity, in the form of free and full access to our markets for goods, services and investment, that we have been forced to give to Europe, is fundamentally unjust, and dishonest, among partners who are so vastly unequal" (Brewster, 2008).

In the 1980s and 1990s, the original anti-imperialist views, positions and policy recommendations of many Caribbean intellectuals were transformed into critiques first of structural adjustment, then of neo-liberalism and globalization and, more recently, of the EPA. The argument remains consistent with that of earlier generations of structuralist thought: trade liberalization takes insufficient account of the economic realities of developing countries and, at worst, seeks to impoverish and underdevelop the "third world" for the benefit of the rich countries. This view has as its specific villains the developed world, broadly speaking, but particularly Europe and North America.

A clear example of the coming together of these sentiments can be found in the title of a statement issued in October 2008 by the Assembly of Caribbean Peoples:[11] "The Economic Partnership Agreement Is a Dangerous Neo-Liberal Project and Is Not in the Interest of the Peoples of the Caribbean." Norman Girvan (2008) elaborated,

> The EPA model is one of asymmetrical neo-liberal integration in which differences among countries in economic power and levels of development are largely ignored; and trade and investment liberalisation by itself is assumed to be sufficient to deliver development.

These views were closely related to another deeply rooted belief that the "first world" — in this case, Europe as represented by the EU — has as its main intention the continued underdevelopment of the Caribbean for its own purposes. As ACP ministers themselves declared in December 2007, "the EU's mercantilist interests have taken precedence over the ACP's developmental and regional integration interests."[12] With regard to the long-held dream of many Caribbean intellectuals of an integrated English-speaking Caribbean, Brewster (2008) stated that, in signing the EPA, "we [the English-speaking Caribbean] have permitted our own plans for deepening the CSME to be pre-empted, to be subordinated, to the requirements of Europe."

This view of pernicious intent on the part of Europeans was sometimes held not only by anti-EPA critics, but also by state officials, even including those responsible for negotiating on CARIFORUM's behalf. Girvan, the de facto leader of the Caribbean anti-EPA lobby, used almost identical language in August 2008: "the content of the CARIFORUM-EU EPA is in accordance with the objectives of the EU's "Global Europe" project which seeks to use bilateral trade agreements to pry open developing country markets to European firms" (2008:4).

The Trade and Fiscal Effects of the EPA: Rhetoric and Reality

Will the EPA's impact on the Caribbean be as dire as its critics allege? The argument against the EPA was informed by presuppositions that, in fact, were based on little new data. Indeed, none of the critics set out to test the propositions made by the EPA's negotiators that the fiscal impacts might not be so grave and that revenues lost to new imports would be offset by access to new markets. Accordingly, researchers at the Caribbean Policy Research Institute (CaPRI) (2009), including these authors, decided to test two principal hypotheses put forth by the anti-EPA lobby: that the EPA will lead to a surge in imports, which could have a damaging effect on nascent Caribbean industries still in need of nurturing; and that the EPA will reduce tariff revenues for Caribbean governments and therefore worsen their fiscal balances. The test was applied to four cases: Jamaica, St. Lucia, Trinidad and Tobago, and Guyana. Was the rhetoric consistent with reality?

Jamaica

In the Jamaican case, the first hypothesis was rejected and the second one supported, but in both cases the confirmation or rejection was relatively weak. The overall

11 The Assembly of Caribbean Peoples describes itself as "a dynamic collective of Caribbean social movements and political organizations, peasants, students, working people, youth, artists, intellectuals, NGOs, and representatives of women's liberalization [sic] movements"; see Caribbean Social Forum (2003).

12 Declaration of the ACP Council of Ministers as its 86th Session expressing serious concerns on the status of the negotiations of the economic partnership agreements, Brussels, December 13, 2007.

picture that emerges is of a trade accord whose impact will be relatively negligible.

In terms of trade impacts, Jamaica is likely to experience a small improvement in its trade balance. Overall exports are estimated to increase by 1 percent, or roughly US$22.8 million or J$2 billion. Overall imports, meanwhile, are expected to increase by 0.6 percent, or roughly US$16 million or J$1.4 billion, leaving a positive balance of around US$6.8 million or J$600 million. In the context of a trade deficit that is over 200 times that figure, however, this is obviously a negligible change. That is not to say that the impact within specific industries will not be more profound. The model detected no sub-sector in which overall exports would increase by more than 2 percent, although an anticipated increase of that amount in tourism exports — given the industry's profile in the Jamaican economy — will not be insignificant to players in the industry, particularly those that appeal to a European clientele.

On the downside, two industries — food processing and agricultural commodities — are likely to experience a degree of import competition that, while not significant for the economy as a whole, might provoke adjustments within the respective sub-sectors. Both are expected to witness 10 percent reductions in import prices from Europe on some goods. The expected result will be a fourfold increase in imports from the EU of agricultural goods. While this would translate into an overall increase in imports of only about US$11.3 million or J$1 billion, it is clear that some farming interests will face stiff competition, given the Jamaican government's recent determination to prioritize agricultural development. Policies to improve the productivity of Jamaican agriculture will be worth considering if the industry is to adjust to the new trade regime.

Equally, the manufacturing of metal products will face similar competitive pressures, with European imports expected to increase by some 40 percent. Because most of that will substitute for imports currently coming from elsewhere, however, the sector is expected to experience a contraction of only 2.4 percent.

The fiscal impacts of the EPA on Jamaica will be slightly more profound. By our estimate, the Jamaican government stands to lose about US$30.6 million or J$2.7 billion annually in import tariff revenues. This would make the fiscal losses from the EPA greater than the export gains by a factor of four or five and, on the face of it at least, would seem to validate at least some of the criticisms made by the EPA's foes. When one measures this impact as a proportion of GDP, however, and uses that as a measure of proportionate revenues lost — in the Jamaica case, this amounts to an increase in the fiscal deficit — the effect will be to add roughly 0.3 percent to the government's fiscal deficit. This is not insignificant, particularly for a country struggling to eliminate its fiscal deficit. The EPA's critics were not entirely wrong or right. Most of the action will take place "at the margins" — both of the economy and of the government's fiscal accounts.

St. Lucia

In the St. Lucian case, the first hypothesis was again rejected and the second supported. Interestingly, given the structure of the St. Lucian economy — which, of course, is much smaller and less diversified than that of Jamaica — the magnitude of the effects is larger in both cases.

St. Lucian manufacturing is expected to suffer from what could be as much as a doubling in manufactured imports from the EU. Yet, this is less dire than it sounds. EU imports represent a small share of St. Lucia's market for manufactured goods, and some new imports will replace what was previously imported from elsewhere. The net effect will be a 4 percent increase in EU imports. Moreover, because the manufacturing sector represents less than a tenth of the country's economy, the overall impact on the economy will be modest (if painful for some manufacturers).

On the positive side, tourism is expected to grow by as much as 4 percent. Given that the hotel sector accounts for one-quarter of the economy, this positive gain will more than offset the output lost in manufacturing. If, furthermore, productivity growth in services results from the EPA, the net effect on the economy could be a growth in GDP of 4 percent. Over the longer term, St. Lucian GDP might grow by as much as 8 percent. Overall, the St. Lucian economy appears set to benefit more from the EPA than Jamaica's, the principal reason being the larger share of services in its economy.

On the other hand, the fiscal impact will be more onerous, if still manageable. We expect the full implementation of tariff liberalization to bring about a drop in revenue to the government of US$11.8 billion or EC$32 billion, which is equivalent to about 0.8 percent of GDP. If this were to be compensated by a uniform rise in indirect taxation rates across other commodities, taxes would have to rise by about 0.7 percent. In the event of productivity growth, however, the figure for foregone revenue could be halved.

Regardless, the challenge for St. Lucia in adapting to a post-EPA world will be for the government to make up the revenue it will forgo. Fortunately for the country, the greater fiscal cushion it has (relative to Jamaica) puts it in a better position to make this adjustment.

Trinidad and Tobago

Trinidad and Tobago's results mirror those for Jamaica: modest economic impact, but with the potential for higher incomes; and a more serious fiscal impact — similar in proportionate scale to St. Lucia's — but within a range that can be considered manageable, at about 0.7 percent of GDP.

Total imports from the EU could increase by an estimated 143 percent. Once again, though, such a large increase in imports from Europe will have only a small negative impact on the economy due to structural limitations. Only 7 percent of the twin islands' imports originate in the EU, so even if imports from the EU grew by the estimated amount, the increased quantity would represent only 9 percent of Trinidad and Tobago's total imports. Only 13 percent of the new imports from Europe would constitute trade creation, however, so the increase in total imports would be only 1.2 percent of GDP. Imports, in turn, make up only 20 percent of the gross value of goods in Trinidad and Tobago, so the required contraction of domestic production would be a mere 0.7 percent of GDP. Finally, because services are a half of Trinidad and Tobago's output, the ultimate impact on GDP would be a negligible 0.3 percent.

Part of the explanation for the limited impact on Trinidad and Tobago of EPA-generated competitive imports from the EU is the dominance of oil in the country's economy, accounting as it does for more than a quarter of economic activity. None of the scheduled tariff changes will have any direct effect on the extraction and refining of petroleum. Further, the country's tiny agricultural sector, representing only 1.5 percent of GDP — compared with more than 4 percent in St. Lucia and more than 5 percent in Jamaica — means that tariff reductions of up to 40 percent on some fruit and vegetables will not have a noticeable effect on the economy at the macro level.

On the face of it, Trinidadian manufacturing — at 36 percent of the country's output, far more important than in the other economies under review — will suffer from the influx of finished goods; however, nearly half of the sector involves the refining of petroleum. Of the remaining non-refining manufacturing activity, food products present the greatest area of vulnerability in the Trinidadian economy. Overall, the negative impact of competitive imports on domestic manufacturing is expected to be 2.3 percent. While this is small for the sector as a whole, it might well be the difference between production and closure for particular products (though our analysis is not sufficiently disaggregated to identify which particular products might be at risk). Overall, though, 83 percent of new imports from the EU will be diverted from other sources, so the impact even on manufacturing will end up as modest. Indeed, to any extent that resources released by the small contraction in processed food manufacturing become redeployed into manufacturing other processed foods, this is the likely place for them. In the long run, this sector might even see some growth.

The government can expect to lose more than 11 percent of indirect tax revenue from foregone import tariffs when the full schedule of tariff liberalization is complete. This is relatively larger than the fiscal losses incurred in the other three countries included in the CaPRI study. At 0.7 percent of GDP, the loss of indirect tax revenue would be almost double that of Jamaica. As in the other cases, this amount is not negligible but it is still manageable, especially when spread over the quarter-century of the liberalization schedule.

Guyana

Guyana's strongly agricultural economy was always likely to be the least vulnerable to competitive imports from the EU. Agricultural activity constitutes almost a third of GDP, nearly five times the share for any other country in the region, and is where more than 20 percent of the employed labour force finds work. The average tariff reduction on imports from the EU entering Guyana under the EPA is 7.1 percent — the highest of the four cases — which is expected to stimulate a 36.5 percent increase in imports from the EU. The share of total Guyanese imports that originates in Europe is currently only 10 percent, so the increase would represent only 3.7 percent of total imports. Of that, the overwhelming majority — more than nine-tenths — would be imports diverted from elsewhere, leaving a mere 0.3 percent net increase in total imports.

Guyana, like St. Lucia, depends greatly on border taxes for its public funding. As a result, the tariff reductions will result in the loss of 6 percent of indirect tax revenue, equivalent to 1 percent of GDP. While this loss is not as bad as in St. Lucia, it represents several times the relative revenue losses in Jamaica and Trinidad and Tobago.

Raising 1 percent of GDP in taxation from alternative sources in a largely informal and agrarian economy like Guyana's is not the straight-forward exercise that it would be in, say, Trinidad and Tobago.

Due to the limited structural overlap between the economies of Guyana and the EU, the likely static income gain from trade opening, at 0.8 percent, is by far the lowest of the four cases. Combined with the low penetration of capital in the economy, the potential for productivity growth to increase income is only 1.6 percent.

Summary

It would appear that the worst fears of the EPA's critics will not be borne out — indeed, it could be that the stridency of the criticism levelled at the EPA revealed less about the accord than it did about the critics. On the face of it, it would seem that the EPA was, as its proponents claimed, relatively uncontroversial. The little research done into its likely effects reached similar conclusions, but apparently was either not known to, or not accepted by, the critics (see Taylor, Antoine, and Liu, 2007). Critics appear to have been moved by a sort of trade pessimism: beginning with the implicit premise that trade is guilty until proven innocent, the failure of the EPA's proponents to eliminate critics' reasonable doubts left the accord wanting in the eyes of the latter. This position is a natural legacy of the trade pessimism that animated the structuralism of an earlier generation of Caribbean scholarship. One is left to wonder if their apparent over-caution, coupled with their failure to derail the EPA, signals the likely decline of this school of thought in Caribbean political economy and trade policy.

The Implementation Dilemma

The EPA's critics maintained that the accord would damage the region's ACP relations and, possibly, its future trade negotiating strategy. As the accord is now law, however, it is imperative to ready the region for the challenges and opportunities it presents.

Implementation can be understood in two dimensions: the legal and the actual. Making the necessary changes to extant legislation will be a huge task for Caribbean countries already short on the legal drafting expertise necessary to comply fully with the EPA. While difficult, this aspect of implementation is, with some exceptions, a logistical exercise and challenge. The other aspect of implementation — translating the agreement into feasible opportunities for Caribbean producers to access the European market and to realize the producer and consumer effects that the agreement should usher in — could prove a more formidable task.

Implementing the EPA entails a great deal more than legislative or policy changes. Supply-side constraints deeply embedded in the economic, social, institutional and political fabric of English-speaking Caribbean countries must be considered if implementation is to create new trading relationships, production and increased economic activity. Yet, on January 1, 2009, the date the EPA came into effect, several Caribbean governments and the CARICOM Secretariat had yet to set up implementation mechanisms.

Indeed, the greatest weakness of trade agreements that English-speaking Caribbean countries have signed on to, especially since the 1980s, has been implementation, particularly where it has potential benefits for new economic activity. The private sector and the relevant state bodies have failed to translate achievements at the negotiating table into new growth opportunities in the domestic economy. The problem has best been characterized as critical supply side constraints and other structural problems. As Byron and Lewis (2007: 31) phrase it, the English-speaking Caribbean has a:

> history of weak ability to take advantage of the market access opportunities available to them, not only in the EU, but in all their other arrangements with North America and Central and South America. Thus, the challenge for the EPA is not so much increased market access, but transforming this into effective market access. This requires measures that speak to the special constraints that size imposes as well as the other structural impediments to competitiveness that exist.

We label this conundrum the "implementation dilemma" (Thorburn and Morris, 2007), though an implementation gap is widely recognized and accepted (DFID, 2008b: 14). It is important to note that these challenges bedevil not only trade agreements, but also many other areas and sectors in which efforts are made, often led by the state, to promote and encourage economic activity.[13]

13 As an example, the Jamaican government, via the Development Bank of Jamaica, made J$2.3 billion available for borrowing to the small and micro business sector at a lower-than-market-rate interest rate in April 2008. Six months later, only J$11 million had been accessed (Douglas, 2008).

The implementation dilemma has at least four aspects. One is the absence of a viable and efficacious state mechanism to promote and encourage use of opportunities available to domestic producers/entrepreneurs. This is a question of who should be responsible for the implementation of trade agreements (and aid agreements). State officials with negotiating experience for such agreements often express frustration that the provisions they fought so hard for are not taken up. While they see implementation as a weak spot, it is not perceived as their responsibility. The private sector recognizes its own role, but also sees one for government. For example, in its statement to the Jamaican Parliament in support of the EPA, the Private Sector Organization of Jamaica (2008) claimed:

> The EPA promises to be profitable for the private sector if the government maintains an enabling environment which allows businesses to make use of the opportunities provided in the agreement. This would include a predictable and stable regulatory framework, the necessary support mechanisms and entities, along with macro-economic and social stability.

The question of ownership is crucial to the implementation of the EPA, but the prospect of an efficacious public-private partnership in such a necessary endeavour is forestalled by low levels of trust between the public and the private sector (DFID, 2008b: 15).

A second aspect of the implementation dilemma is that the risk-adverse private sector is weak and fragmented (DFID, 2008), uninformed and/or unable to take advantage of these opportunities for several reasons: lack of access to venture capital, compounded by high levels of public debt that has crowded out private borrowing and stunted financial sector growth (DFID, 2008); the complacency of those accustomed to operating in a non-competitive business environment due to years of protectionism;[14] and the cost of doing business in islands where security costs are high, transfer taxes are prohibitive, virtually all inputs must be imported and are subject to high customs duties and excessive government bureaucracy that makes conducting business and establishing new businesses difficult (World Bank, 2005: xxv). In Dominica, private sector players point to a range of factors that negatively affect their competitiveness and, thus, their ability to access the EU market (Byron and Lewis, 2007). At the local end, these include the high cost of energy; low levels of technology usage, especially the availability of scientific and research institutions; the inadequacy of sea and air transport; high labour costs; low levels of tertiary education and skilled persons, compounded by the high emigration of skilled workers; and the rugged terrain.

A third aspect is the absence of a robust trading environment and culture, including weak physical and financial infrastructure for trade. Caribbean countries produce very little of what they consume in virtually all consumption categories. Caribbean economies are tied to international trade, thus to state that Caribbean countries are immature traders warrants further exploration.

The lack of capacity to export in a sophisticated and competitive international market is related to deeper and broader capacity issues that are noted above (see also Williams, 2007: 347-63). These shortcomings contribute to the underdevelopment of a modern and diversified trade environment in the English-speaking Caribbean. As well, an insufficiently developed marketing infrastructure, both internally and externally — particularly a lack of market information on both the demand and supply side — bedevil production (Waller and Thomson, 2008). The lack of competitiveness and perhaps the inability to become competitive in international trading relationships is the end result of these internal weaknesses. Indeed the anti-EPA lobby cited these failings as a prime rationale for not entering into a reciprocal trading relationship with a developed economy such as that of the EU, fearing that domestic producers would be forced out of the market completely.

Finally, implementation of the EPA is hampered by the difficulty of accessing the provisions of the agreement, and a perception that concessions and opportunities are given with one hand and taken away with the other. European funds, whether promised for projects or for budgetary support, are notoriously difficult to access. Stories abound of endless bureaucratic and administrative hurdles in the approval process and in accessing funds once projects have been approved. Byron and Lewis (2007: 40) note:

> In interviews with individuals representing a wide cross section of groups — government, private sector, regional and national NGOs, women, farmers and workers organisations — in Guyana, Barbados, Jamaica, Dominica

14 This perspective was highlighted by a 2005 World Bank survey of the Caribbean, which reported that protectionism has served to cushion the Caribbean against major competition and thus has hindered the growth of some industries. The survey argued that "owing to the long history of protection and trade preferences," entrepreneurship is limited in the region (World Bank, 2005: xxv).

> and the DR, interviewees consistently expressed their dissatisfaction with the EC's track record of aid disbursement. Their experience of the EU's approach to aid, most often based on concrete instances, suggested that development assistance even though promised under an EPA, may not be readily forthcoming.

The National Indicative Programme document prepared jointly by the EU and the Planning Institute of Jamaica (NIP Jamaica, 2008: 27) states:

> Start-up of projects and programmes financed under the 9th EDF proved to be implemented slower than intended. The private sector development programme, in particular, started effective implementation only recently, due in part to complexity of procedures. Likewise, the complexity of procurement procedures for [Technical Assistance] in general is well-known.

By one estimate, some €580 million has been allocated for the implementation of the EPA (European Parliament, 2009). The amounts are not entirely clear, however, because they will come from a variety of sources. Caribbean governments will need immediate assistance to cover the fiscal shortfalls that result from the lifting of some tariffs. Furthermore, they will need to help prepare firms that will suffer from import competition, either to adjust to the new reality or to shift into new areas of production. Though the effects of the EPA will not be as sweeping as the accord's critics alleged, they will be felt by a few individual firms and sub-sectors, and it is not clear that governments have ready solutions for the challenges ahead. Finally, Caribbean governments must make technical adjustments to make their standards conform to those required by the EPA. All in all, governments already challenged by capacity constraints have much to do, and it is not yet clear that the EPA funds available will be targeted towards high-priority uses that will enable Caribbean governments truly to realize the advantages the EPA promises to confer. Nor is it clear how the funds meant to enable the region's transformation will be administered, or by whom. Caribbean governments currently lack the technical capacity to take advantage not only of trade enhancements, but of development cooperation as well. Given such challenges, it is perhaps at least reassuring that the EPA's effects will not be as profound as some feared, but it is hardly grounds for encouragement.

Conclusion

The struggle against the EPA may have provided a window into the transformation of Caribbean political economy, signalling the decline of a school of thought that had structured the region's trade relations for a generation. Nonetheless, if the region's governments are to make the transition to the emergent, WTO-compliant trade regime successfully, they will need to effect structural and capacity transformations that are sharper than the economic ones.

Relations between the CRNM and CARICOM deteriorated during the course of the EPA negotiations, and Caribbean governments themselves either withheld information or took insufficient interest in the negotiations until it was too late to alter the agreement substantially. Obviously, if such divisions persist, they will make it easier for trade partners to undermine the Caribbean region's position in future trade negotiations. This matter deserves serious attention, not only from Caribbean governments, but, very importantly, from the societies whose interests they are supposed to serve. More effective policy coordination appears to be as much the mantra of future development as it ever was.

Critics of the accord contended that it would weaken the English-speaking Caribbean's relationship to the G77 and the other countries of the ACP, especially since the latter are likely to be influenced by the model of the Caribbean EPA in their own trade negotiations with the EU. All these charges may prove correct — it is too early to say, since the future of such international regimes is governed not just by treaties, but also by the political direction their signatories provide. Caribbean integration arguably has been hindered not by structural arrangements, which the EPA will now alter, but by lax movement in that direction by Caribbean governments. In that respect, change for Caribbean countries must start closer to home, with the initiative their governments bring to their international relations and to the capacity building needed to realize the benefits of trade.

This point cannot be emphasized enough: the EPA will be beneficial only in the context of the CSME. Individual territories will find it difficult to compete in the EU market because of the challenges of size. There is no question that the larger economies of the region will be in a better position to diversify their economies than the very small ones, but if the region is able to plan and coordinate economic activities to channel resources to the areas where they can be most productive, its overall welfare will improve. With the free movement of labour and capital, the labour force and the ownership of industries will take on a regional flavour, enhancing the diversity of knowledge as individuals and business practices move throughout the region. It would be unfortunate if the regional program were not implemented — if individual countries with the requisite resources were able to capitalize on the EPA, while those without support were left behind. This is why the €165 million package is targeted at addressing supply-side constraints that have restricted trade benefits under previous agreements. Successful implementation of the CSME would result in productive activities at the regional rather than the national level, which would lead to greater specialization in production based on competitive advantage. The free movement of labour and capital means that individuals and firms can establish themselves in the territories where they have competitive advantage as they gain access to raw materials and skilled labour.

The EPA must be seen in the context of a liberalized global economy, where a competitive environment is a necessary and sufficient condition for survival. The long-term scenario is one where the structural transformation of all economies is inevitable. The EPA thus provides an opportunity for the region to make giant steps into an uncertain terrain with some kind of framework in which to practice. What is needed now is the construction of scenarios that incorporate all the structural variables necessary to operate successfully in an international trading system based on reduced tariff and non-reciprocal trading arrangements.

The full implementation of the CSME is essential to the successful implementation and operationalization of the EPA. The track record of Caribbean governments in this respect, however, does not inspire confidence. Should progress towards a CSME be inhibited, the failure of the region to take advantage of the EPA will be properly laid not at the feet of a trade arrangement, but on the doorsteps of Caribbean governments.

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