

EU-CARIFORUM Economic Partnership Agreement (EPA)

EPA as a Development Tool

Carl B. Greenidge
Deputy Senior Director

OUTLINE

1. *EPA and not EPA*
2. *The Development Issue in the Context of ACP EU Relations*
3. *Caribbean Pre-occupations*
4. *Trade Instruments in Support of Development*
5. *The Caribbean 'Situation', 2008*
6. *What is so special about EPAs?*
7. *EPAs and Development*
8. *EPA a la Cariforum*
9. *The Search for Development in EPAs*
10. *Conclusions*
11. *Some useful references*



EPA and Not EPA

- An EPA is only a FTA it is neither a panacea nor a regional development plan
- In the discussions in the early days even the Commission spoke of 'flanking measures' meaning additional instruments
- Widespread acknowledgement of need for supporting measures and a more efficient EDF procedures and management
- In that sense the Cariforum EPA seeks to be a 'FTA plus'



The Development Issue in ACP-EU Relations

Lomé:

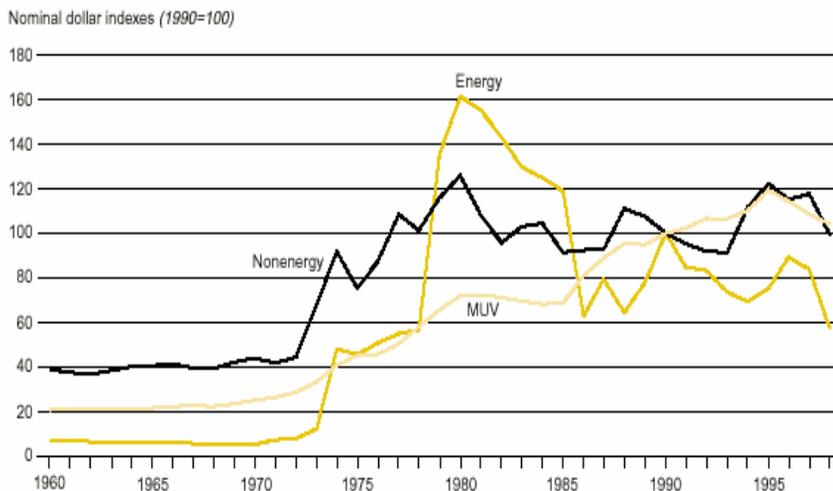
‘man at the centre of development’ & was mainly pre-occupied with assistance on economic issues in context of ACP states identification of development priorities:

- Production
- Export earnings problems arising from price fluctuations and
- downward secular price trends for their main products – primary commodities



4

Figure 4.1 Primary commodity prices versus manufactures unit value index (MUV), 1960–98



Source: World Bank staff calculations.



The Development Issue in ACP-EU Relations (cont.1)

- Related investment problems encountered
- Also reflecting lack of structural diversification and
- inadequate command of technological change, low involvement in innovation and technological change – ‘white magic’ era
- The challenge of industrialisation
 - Infant industries
 - LDLDCs Production



The Development Issue (cont 2)

Cotonou shared these concerns but reflected EU insistence on adding their development concerns, and re-oriented cooperation towards:

- Strengthening the role of the market in ACP states at all levels in enhancing efficiency and providing incentives
 - entire section devoted to this
- Cementing Europe’s role as a global player in international economic arena
- Acknowledging dysfunctional role of many ACP Governments and supporting the role of non-state actors
- Problem of humanitarian crises with and without war
- Putting ‘sustainability’ in development
- Enhancing Aid effectiveness



Caribbean pre-occupations in development

- Small size and international trade
 - Inhibits economies of scale in production runs inter alia, but its importance depends on the:
 - characteristics of sector
 - size of the product market
 - & can be attenuated by access to int. mkts
 - large markets improve prody
 - If the available data is controlled for location, level of development and incidence of petroleum, GDP growth in smaller states is better than that of larger ones
 - Reality is that smaller states are wealthier within and outside of the Caribbean
- Vulnerability
 - for all the debate and fury over SIDs it is yet to find favour in a meaningful way in WTO
- Diversification and new economic activities



Caribbean pre-occupations in development (cont.)

- If the available data is controlled for location, level of development and incidence of petroleum, GDP growth in smaller states is better than that of larger ones
- Reality is that smaller states are wealthier within and outside of the Caribbean
- Vulnerability
 - for all the debate and fury over SIDs it is yet to find favour in a meaningful way in WTO
 - Reason?
- New economic activities
 - Significance of services in development process?



TRADE INSTRUMENTS IN SUPPORT OF DEVELOPMENT

Lomé

- Non-reciprocal trade agreement
- Support for Regional Cooperation/Integration
- Compensatory Export Stabilisation Scheme – Stabex, Sysmin
- Project funding
- LDLICs funding
- EIB, CTA, CDE

Cotonou

- Enhanced competitiveness thru trade liberalisation
- Gradual integration into international economic system
- MDGs and Good Governance
- Funds in support of regional integration/cooperation
- Flex
- Programme funding
- LDLICs funding
- EIB, CTA, CDE



The Caribbean Situation, 2008

Background against which policy is to be implemented:

- Decline in output and productivity in many states
- Regional integration scheme not yet completed
 - from FTA, to partial CU, to Common Market with Single Economic Space
 - Most rapid growth since 1998 is in inter-regional trade
- International trade environment characterized by:
 - declining preferential margins
 - low tolerance for preferential access
- Effects of CAP review
- Significance of services to region
- Political sensitivity of employment levels



What is So Special About EPAs?

- Times have changed – cynicism and more critical observers
- Replacing a highly prized mechanism and seeking to ensure no state is worse off – EU Council promise
- Claims about trade development link questioned
- Issues in question:
 - Supply side constraints and how these are to be lifted



12

EPAs and Development

The philosophy

- Trade long seen as 'engine of growth' in context of development of both US and recent East Asian Tigers. Cotonou formalizes it in EPA.
- Central to neo-classic model – on which Bretton Woods Consensus is based – is liberalised markets. The latter is the basis for the efficient allocation of resources and as a means of delivering competitiveness through increasing private ownership, expanding exports and promoting investments. In addition proposes:
 - Modernisation
 - Innovation
 - Increased market access and
 - Enhanced regional integration



13

EPAs and Development (cont.)

Main features:

- Regional approach to trade cooperation
- WTO-compatible and involving
 - Asymmetrical reciprocity in return for
 - Limited preferential access
- Aid for trade



EPA a la Cariforum

- Favourable scope, timing and extent of market liberalisation
- Nature of links to funding
- Helpful treatment of services of special interest to the region and
- Defensive regulatory framework
- Prominence of innovation and S&TD support



The Search for Development in EPAs

- Development dictates that RTAs should not:
 - Limit economic policy space and opportunities available to developing state signatories
 - Require too liberal investment rules in exchange for inadequate and primarily FDI
 - Unfavourable balance between developing state obligations and priorities
 - Fail to include a ‘development chapter’
 - Omit the inclusion of a monitoring mechanism
- Proposed benchmark study to look in addition at:
 - MDGs
 - Sustainable development goals
 - Economic and social equity, especially poverty reduction



Conclusions

- Trade is but one policy instrument
- Development is multi-dimensional
- The context in which the Caribbean’s EPA is to be implemented is one of frequent, and perhaps, rapid change not least of all in international markets. The challenge is therefore for the region to develop the capacity to adjust significantly and with dispatch as circumstances dictate
- Such adjustment will involve many areas, such as effective social networking, in order to maximise limited skills and quickly share and manage valuable, sometimes specialised information expeditiously.



Conclusions (cont)

- Trade policies alone cannot ensure development
- Complementary policies will need to be consistently pursued
- In absence of perfect foresight this trade framework will also need to be modified and adjusted over time
- An ex ante review suggests that these concerns have been largely met
- The real test is an empirical one and would require time to determine. The gap between the two exercise will be a test of whether Governments can implement policies when circumstances dictate



Some Useful References

- Alesina, A and Spolare, E (2003) The size of nations. Cantab, MIT Press. pp 81-83.
- Byron, J & Lewis, P (2007) Formulating sustainable development benchmarks for an EU-Cariforum EPA: Caribbean perspectives. Sept. ICTSD and the APRODEV.
www.aprodev.net
- Easterly, W and Kraay, A (2000) Small states, small problems? Income, growth, and volatility in Small States. *World Development*. Vol. 28, #3. pp2013-2027



Useful References (cont.)

- IBRD (2005) A time to choose: Caribbean development in the 21st century. Washington, DC. April 12.
- Meyn, M Stephens, C (2007) ACP-EU Partnership Agreements. Final report. ODI for C.S. Nov.
- Van Reisen, M (2005) EU Global Player
- van Reisen, M (2001) Reform of EU Development Policy.