

**FORMULATING SUSTAINABLE DEVELOPMENT BENCHMARKS  
FOR AN EU-CARIFORUM EPA: CARIBBEAN PERSPECTIVES**

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## **FORMULATING SUSTAINABLE DEVELOPMENT BENCHMARKS FOR AN EU-CARIFORUM EPA: CARIBBEAN PERSPECTIVES**

### **Executive Summary**

The European Commission's (EC) thrust to negotiate Economic Partnership Agreements (EPAs) with the Africa Caribbean Pacific (ACP) group of countries on the basis of regional groupings, represents a fundamental departure from the traditional basis of EU/ACP relations. EPAs signify a shift from aid and preferential, non-reciprocal trade as fundamental features of the relationship to one centred on the liberalization of trade between the two groups, with financial assistance appearing to occupy a subordinate role. EPAs, which are underpinned by neo-liberal approaches to development, which locate free trade at the centre, are the means for bringing the EU/ACP relationship into conformity with the WTO, which now provides the umbrella framework for such arrangements. This shift has fuelled concerns, both within government and non-government circles in both the ACP and European Union, that the development goals of ACP countries are not subordinated to trade liberalization imperatives.

The suggestion for using a benchmarks approach, based on the identification of a series of benchmarks by which to measure the developmental effect of EPAs, first emerged from the Cape Town Declaration adopted by the ACP and EU in 2002, and has since been developed by the Association of World Council of Churches related Development Organisations in Europe (APRODEV) and the International Centre for Trade and Sustainable Development (ICTSD). Benchmarks would serve as a tool for ensuring that EPAs live up to sustainable development goals embraced in the CPA mandate for EPAs, and that ACP countries are no worse off than before. This study, which was commissioned by APRODEV and ICTSD, represents an attempt to apply the approach to the CARIFORUM-EC negotiations, which are the most advanced of the ACP-EU negotiations.

The specific terms of reference of the study were that the benchmarks developed should cover the categories of (a) Market Access and Fair Trade; (b) Policy spaces within the EPA commitments for promoting the competitiveness of CARIFORUM productive sectors, growth with equity and sustainable development; and (c) Access to development support for realizing these objectives. The study was also to pay attention to the following issues specific to the CARIFORUM group:- The impact of EPA negotiations on the regional integration processes in the Caribbean;

suggestions for support measures for Small and Medium Sized Enterprises (SMEs); specific benchmarks to articulate the interests of family farmers; specific recommendations on gender equity and female poverty; and the impact of the EPA on selected Caribbean countries. In addition, given that most CARIFORUM countries fit the Commonwealth/World Bank's definition of small states, the authors gave specific considerations to the development challenges that arise from their small size, as well as to the structure and process of the EU-CARIFORUM EPA negotiating process, and the degree to which it took account of these constraints.

At the heart of the study is information gathered from a wide range of sources across five CARIFORUM countries -- Barbados, Dominica, the Dominican Republic, Jamaica and Guyana -- which form the basis for analyzing the consultation processes which should underpin the negotiation, and which also provided the basis for defining the benchmarks suggested. The study comprises nine chapters which seek to contextualize the CARIFORUM region, characterize its relations with the EC, present and apply benchmarks, and present case studies of four CARIFORUM countries.

**Chapter One, 'Introducing Sustainable Development Benchmarks'**, discusses the utility of the benchmarks approach and the specific objectives of the Cape Town Declaration in proposing their usage. It also discusses APRODEV's and ICTSD's development of the idea. Central to the ACP-EC's concerns were transparency and inclusiveness of the EPA process (Paragraphs B, D, E). Benchmarks were thus a means of encouraging debate and discussion among groups and individuals interested in promoting sustainable development and reducing poverty in ACP countries. They were expected to assess the extent to which any agreement being negotiated can fulfill the main objectives of the Cotonou Agreement, which included promoting the sustainable development of ACP countries, including reducing poverty; promoting the structural transformation of ACP economies as the basis of their integration (presumably on more favourable terms than currently exist) into the world economy; and increasing women's access to economic resources. They were also to monitor the negotiations to ensure that they accorded with these salient principles: that they do not lead to the ACP being worse off than under current trade arrangements; that they respect LDCs' right to non-reciprocal trade preferences; that they address the needs of small island and single commodity dependent countries. Finally, they were also to monitor the negotiations to ensure that they addressed specific issues of market access, supply-side constraints, fiscal adjustments (addressing loss in customs revenue, providing budgetary support), and the effects of the review of the EC's Common Agricultural Policy (CAP).

ICTSD's and APRODEV's interest in identifying and applying benchmarks to EPA negotiations was to ensure that EPAs were constructed as an instrument which would assist ACP countries to achieve Millennium Goals and broad sustainable development goals. They were also concerned that asymmetries in trade agreements should not thwart sustainable development goals – environmental, economic and social, particularly poverty reduction. Benchmarks would thus provide a tool to be used by interested groups in both the ACP and EU as a basis for assessing 'the substantive progress of the EPA negotiations towards the development goals they should serve' (ICTSD 2007). For ICTSD and APRODEV the treatment of competitiveness and equity in EPAs were of particular concern. They identified three broad categories of issues for identifying priorities for monitoring EPA negotiations: market access and fair trade, policy space or space for achieving sustainable development policies, and the availability of EU resources for development, particularly financial inflows.

**Chapter Two, 'Size and its implications for trade and development'**, discusses the environment in which benchmarks are being proposed, particularly the primacy of neo-liberalism and globalization and the role of the rules-based WTO in setting out the rules of the game and ensuring that signatories play by them. The chapter examines the particular challenges that CARIFORUM countries face, operating within the constraints of a system that promotes the general application of rules irrespective of differences in size, resource endowment and levels of development.

The particular challenges presented by their small size were discussed in terms of limitations of physical, natural and human resources and their implications for capacity and supply-side constraints to competitiveness. In respect of their relationship with the EU, the main feature identified was their declining competitiveness. This was evident in their declining exports to EU market, even in situations of preferential market access; their difficulty in taking advantage of market access opportunities that already exist; and the structure of their trade, which is characterized by a concentration on primary products, particularly agricultural, and their declining competitiveness

Their particular challenges for competitiveness in an EPA were identified as:

- Limited ability to take advantage of EU market access opportunities;

- Limited competitiveness in respect of larger, more integrated, more experienced EU firms;
- limited economies of scale;
- weak resource base; access to cheap sources of finance;
- High costs of meeting infra-structure and institutional needs;
- High debt to GDP ratios in the wake of reduced access to concessionary financing;
- Difficulty in meeting sanitary and phytosanitary standards (SPS);
- Paradox of relatively high human development coexisting with high unemployment and poverty.

Small size constraints thus presented particular challenges for constructing benchmarks: the challenges of crafting an EPA that is sensitive and responsive to the challenges that size holds for development, trade competitiveness etc., while remaining within the bounds of the WTO which does not acknowledge size, and of pursuing CPA goals of sustainable development in a WTO plus agreement. The implications of the latter are substantial trade liberalization, the inclusion of trade-related or behind-the-border issues, such as competition policy, stronger IP regimes, investment procurement and data protection; and the burden of administrative, legal and institutional challenges which these presented. In conclusion, a CARIFORUM-EU EPA should address the vast asymmetries that exist between the two groups of countries in both the negotiation and implementation phases.

**Chapter Three, ‘Development, Trade Liberalization and Competitiveness’**, seeks to identify the conceptual foundations of the EPA, which it locates solidly in the neo-liberal development approach that underpins the WTO, and the challenges this presents to CARIFORUM’s pursuit of sustainable development, in economic, social and environmental terms, particularly poverty reduction and gender equity. Trade is identified as being central to the neo-classical model of development, with liberalised markets as the basis for the efficient allocation of resources and as a means of increasing developing country competitiveness through increasing private ownership, expanding exports and promoting investment as necessary conditions for achieving development. Trade thus provides the basis for higher incomes, higher economic growth, and hence its impact on poverty reduction. Trade must therefore be fostered in developing countries.

The CPA commits EPAs to ‘reducing and eventually eradicating poverty consistent with the objectives of sustainable development and the gradual integration of the ACP countries into the

world economy' (Article 1). Inherent in this objective are the following assumptions: that poverty reduction and sustainable development are compatible (or achievable) with their integration into the world economy; that there is a single path to development to which all subscribe, that is based on their integration into the world economy; that integration into the world economy is to be equated with the neo-liberal approach to trade which underpins the WTO – in other words, that there are no other viable or beneficial approaches to their integration into the world economy; and that integration into the global economy is a desirable goal or one that would necessarily result in their sustainable development. The study argues that operating within this framework, the benchmarks approach, although useful, nevertheless serves to modify the impact of neo-liberalism, rather than radically transform the relationship between developed and developing countries.

The chapter identifies the main challenge for the CARIFORUM group in constructing the EPAs as a tool for development, as their weak identification of what their development goals are. There is no regional framework for development, nor is it easy to identify individual country development strategies. To the extent that development strategies exist, they are largely national and do not actively contribute to the shaping of a coherent regional development plan. The varying development levels of countries in the region make a single vision difficult, with Trinidad and Tobago and Barbados advancing strategies aimed at achieving 'first world status' in the medium term, while coexisting with Haiti, an LDC, and Guyana, classified as a HIPC.

The absence of a clearly articulated development platform presents a challenge for constructing benchmarks. Nevertheless, the study draws on the broad ACP consensus that exists for establishing broad parameters for development. These include restructuring of their economies away from primary goods production for developed countries, towards the production of greater-value added goods; ensuring that their options for exploiting new areas of comparative or competitive advantage are not precluded by rules which cut off their potential to use policy to develop emerging areas; ensuring that their policy space for influencing economic development and protecting vulnerable sectors of their population in keeping with their own vision of their society are not closed off; and that they have some control over the liberalisation process to ensure that asymmetries between themselves and their developed partners are not increased, but are lessened.

**Chapter Four, 'CARIFORUM and Regional Integration'**, speaks to the challenges of CARIFORUM countries negotiating as a regional grouping when their economic relations are tenuous, at best. CARIFORUM, as a regional grouping, represents an artificial construct for the purposes of EPA negotiations. It was formed in 1991 as a tool of EC convenience to facilitate the administration of the Lome agreements. CARIFORUM thus represents CARICOM, a regional integration scheme of long standing, and the Dominican Republic with which the group has an FTA in goods. The Dominican Republic also has an FTA with the CACM group, as well as with the US. The Caribbean Regional Negotiating Machinery (CRNM) negotiates on behalf of CARIFORUM in the EPA negotiations. In light of this diversity, CARIFORUM has urged that the EU accept the concept of variable geography with appropriate flexibilities built into the EPA.

CARICOM, as an integration grouping, has its own challenges. There is diversity among its members in terms of size, levels of development, and commitment to the integration process. CARICOM's current focus is the consolidation of its single market and economy (CSME) which was launched in 2001. Both Bahamas and Montserrat -- still a colony of Britain -- while members of the Caribbean Community, are not signatories to the CSME. Haiti, which has only been recently readmitted to CARICOM, is not fully incorporated into the CSME. The situation is further complicated by the existence of the OECS sub-grouping which operates within CARICOM. Some of the challenges CARICOM confronts in maintaining a coherent integration process is evident in the unevenness in intra-regional trade. Trinidad accounts for over 70% of intra- CARICOM exports, while the OECS' performance in regional trade shows a declining share, falling from 2.4% to 1.4% between 1980 and 2003 (ECLAC, 2005:7).

The main challenges facing the regional integration movement can be summarised as completing the unification of its markets without comprising the development prospects of its economically less competitive members, and maintaining its distinct regional personality in face of increasing demands for FTAs (US, Brazil, Colombia, Costa Rica and Venezuela). In constructing benchmarks for development, the OECS becomes important. An EPA which does not embrace special measures to address the inherent lack of competitiveness of these countries and the most extreme manifestations of small size may well result, either in their further marginalisation within the 'global' economy, or their 'integration' based on the complete dominance of EU firms and the exclusion of local initiatives from the economy. Negotiators are also challenged to ensure that the differences that exist within CARIFORUM are given concrete expression in the EPA.

**Chapter Five, ‘History of CARIFORUM – EU Relations: the Lome and Cotonou Predecessors to the EPA’**, reviews the institutional and economic evolution of the CARIFORUM-EU relationship through Lome I – IV and the Cotonou Partnership Agreement. It points to the asymmetrical levels of reliance on the EU market among the CARIFORUM countries and the declining competitiveness of most traditional agricultural exports to the EU. Although diversification projects have proceeded slowly, the chapter argues that CARIFORUM’s future competitiveness in EU markets may lie partly in nurturing activities like organic agricultural exports and partly in the export of services like skilled labour, entertainment and other creative industries, tourism and financial services. The successful exploitation of these possibilities will depend on the negotiation of an EPA that makes provision for development support, for strengthening competitiveness and for the mobility of people and services within the Caribbean and between the Caribbean and the European Union. It establishes the importance of the EU’s financial contributions to the region in supporting crucial projects in infrastructure, human resource development – health, education, private sector development, poverty alleviation, and adjustment assistance to agriculture, particularly to offset the downturn in the banana and sugar industries. EU development assistance has become all the more significant as CARIFORUM countries’ access to concessionary financing has decreased and their levels of indebtedness have risen sharply. There are challenges in this aspect of their relationship, however, with the region experiencing low levels of absorption of financial resources and the EU guilty of slow rates of commitment of funds, both of which are attributable to a mix of capacity and bureaucratic factors.

The EU’s historic role as the region’s major financial donor, coupled with a general reduction in assistance and concessionary financing after the end of the Cold War, and the growing indebtedness that has resulted, have led to a focus in the EPA negotiations on development assistance from both sides. Thus, despite EU commitment of funds under EDF 9, disagreement is fuelled by the inadequacy of such funds to meet the additional challenges of an EPA.

**Chapter Six** gives an overview of the CARIFORUM-EU EPA negotiations 2002 to 2007. Article 36 of the Cotonou Partnership Agreement is the legal basis for these negotiations, which have taken place in two phases. Phase One consisted of talks between the all-ACP Group and the European Commission, led by the Directorate-General for Trade, while Phase Two consists of negotiations between the European Commission and each of the six designated ACP regional groupings.

It was intended that Phase One should define the format, structure and principles that would govern the subsequent negotiations. The chapter lists the major differences that arose between the EU and the ACP during this phase. These revolved around the issue of the adequacy of development support for the negotiations process and for the implementation of trade liberalization thereafter; whether or not Phase One should culminate in a binding all-ACP-EU agreement; the feasibility of having a ACP-EU Joint Steering Committee to formulate policy on the negotiation of trade rules in the WTO Doha Development Round. Phase One ended in October 2003 with a Joint Declaration which stated areas of agreement, ongoing differences and recommended ways of addressing the latter. During this phase, the EU designated an amount of 20 million euros as support for EPA negotiations preparation and a management entity called the Programme Management Unit to administer the funds. It also proposed that a Regional Preparatory Task Force (RPTF) be established in each ACP region with a mandate to monitor the negotiations and advise on types and sources of support needed. Nonetheless, disbursements proceeded extremely slowly and EU-ACP divergent positions on development questions continued to affect the progress of the negotiations throughout the subsequent stages of the EPA talks.

The chapter then surveys Phase Two of the negotiations which engaged CARIFORUM directly with an EU negotiating team led by the Directorate-General for Trade. There were four scheduled stages in these negotiations, the first spanning April – September 2004, the second September 2004 – September 2005. The chapter ends with the third stage, September 2005 – December 2006. (The negotiating parties are still heavily involved in the final stage of the negotiations, scheduled to end by December 2007). It explores the structure of the negotiations, emphasizing the complex way in which the CARIFORUM team organized itself in order to accommodate the grouping's diverse characteristics and interests. It highlights the asymmetry of the resources, representation and organization of the two negotiating teams and points to the perceptions of marginalization or under-representation that existed among some CARIFORUM states and non-state actors.

The structure and pace of the negotiating process did not facilitate the required levels of consultation and consensus-building among CARIFORUM stake-holders. Despite the best efforts of the RNM, there were uneven national consultation processes, weaknesses in the information dissemination systems and low levels of representation of some sectors, notably small business

operators and sectors of civil society. The chapter points to a lack of preparedness for the EPA negotiations on the part of CARIFORUM actors, evidenced in delays in or the complete absence of impact studies for various products, sectors or countries. These were attributed to the fact that funding was not made available in a timely fashion and also to institutional weaknesses in CARIFORUM countries. Negotiators were therefore obliged at times to formulate negotiating positions on the basis of scarce data and incomplete information.

During Stage One, both sides were supposed to establish their priorities and a schedule for the negotiations, establish the Regional Preparatory Task Force, set up a regional network of Non-State Actors and solicit financial support from the wider international donor community. The first two objectives were accomplished.

Stage Two was supposed to focus on Caribbean regional integration and to reach agreement on the priorities for EU support of this process and the targets to be attained by January 2008. Progress was stymied by the fact that the EU and CARIFORUM actors held very different ideas about the advancement of regional integration in the Caribbean, and also by the limitations of CARIFORUM as a vehicle for integration. CARIFORUM maintained that the principles of variable geometry and differentiation should guide the process of deepening integration and that it should not be speeded up to accommodate the implementation deadlines of the EPA. Just as in the case of the two sides' differing views on development support, the lack of agreement on a *modus operandi* for deepening integration within CARIFORUM would cast a long shadow over the remainder of the negotiations process.

The objectives of Stage Three were to agree on an approach to trade liberalization and to put together a first draft of the Economic Partnership Agreement. The chapter details the progress that was made during five sets of meetings of the Technical Negotiating Groups. It points to the advances on Trade Related Issues which resulted in consensus texts emerging in most of the issue areas. In the Services and Investment talks, it lists the areas of interest for both sides and identifies two major areas of interest for CARIFORUM, cultural industries and Mode Four service delivery, as looming problematic areas in the negotiations. It notes that both negotiating sides have emphasized the importance of Services and Investments for CARIFORUM development and the need for the agreement to have development-enhancing commitments.

The chapter points to the Market Access negotiations as the area in which progress has been slowest. It outlines EU-CARIFORUM differences on formulae for tariff liberalization, and on the duration of the transition to free trade. CARIFORUM positions are explained in part by high levels of indebtedness and heavy dependence on trade taxes for government revenue. Moreover, both sides appeared to be still engaged in complex internal consultations. The chapter concludes with a discussion of the major differences between CARIFORUM and the EU on the question of development support. It also makes mention of the issues facing the Legal and Institutional Issues Negotiating Group, including the legal status of CARIFORUM, a dispute settlement mechanism and other institutions for the EPA.

**Chapter Seven** discusses the concept of benchmarks, their potential utility and challenges in the EPA context. A benchmark is a reference point used to measure something and assess its significance in relation to broader objectives. Sustainable development benchmarks are being proposed in order to help to construct and evaluate a FTA that would not simply liberalize trade in goods and services, It is argued that it should also help to build the capacities of institutions and sectors and it should enable public policy to promote balanced development by addressing issues of equity and poverty alleviation. Benchmarks would measure the extent to which the agreement would facilitate the achievement of national and regional sustainable development goals. In terms of challenges, benchmarks require clear and well coordinated development goals and plans on the part of CARIFORUM states. The effective use of benchmarks requires transparency in consultation and information provision and flexible negotiating schedules. Benchmarks would need to be institutionalized into the EPA agreement by means of a monitoring mechanism. The EPA must have the flexibility to review and modify the elements which are identified as being inimical to ACP/CARIFORUM development.

The chapter proposes six categories of benchmarks. *Normative benchmarks* are based on the sustainable development objectives contained in the Cotonou Partnership Agreement (2000), the Cape Town Declaration (2002) and the all-ACP/EU Declaration made in Brussels, December 2003. There are benchmarks relating to the *Negotiations Preparedness and Process*. Benchmarks to evaluate the content of an eventual agreement are grouped under the headings of *Market Access and Fair Trade, Policy Spaces, Development Support* and *Regional Integration*. Asymmetries of size and resource endowments existing between the EU and CARIFORUM regions are also factored into the discussion, particularly as they impinge on the distribution of benefits between the two regions and have equity implications.

The chapter then lists the benchmarks that could be constructed under each of the proposed headings. Normative benchmarks flow from the fundamental development objectives and principles contained in the documents listed above. The other benchmarks draw heavily but not exclusively on the concerns expressed by CARIFORUM stakeholders interviewed during the course of the research.

Benchmarks on negotiations preparedness and process include the effectiveness of systems of national consultation and participation; the quality of public information; the effectiveness of coordination at both national and regional levels; the adequacy of research carried out in preparation for the negotiations; the levels of transparency in the EU's approach to services negotiations; the extent to which the negotiations have privileged market access issues over development concerns.

Benchmarks for Development Support emphasize the principle of additionality of resources, particularly for capacity building purposes; the strengthening of private sector capacity in multiple areas; a strong focus on small producers with limited resources; the development and implementation of local and international health and environmental standards in both the services and goods sectors; the need for agriculture to be a focal point based on food security, rural development needs and employment; the need for resource allocations to be made based on gender equity data and considerations; the need to ensure that the theme of social responsibility is reflected throughout the EPA; the need to incorporate the principles contained in the NGO-Governments' Mauritius Consensus on Sustainable Development; the need for a monitoring mechanism to ensure that the implementation of the EPA neither deepens nor feminizes poverty; the need to strengthen CARIFORUM capacity to combat unsustainable fishing practices in their maritime jurisdictions and Exclusive Economic Zones.

Benchmarks for Market Access and Fair Trade stipulate the need for provisions in the EPA to enable Mode Four movement of workers from the CARIFORUM to the EU; the need to have asymmetry in liberalization commitments in favour of CARIFORUM; the need for market access solutions to the negative impacts of EU trade-related rules; the need for a substantial improvement of real market access for CARICOM producers, large and small; the need to have expanded market access to the DOMs and OCTs that are in close proximity to CARIFORUM

economies; the requirement that there be a Special Safeguard Mechanism for the agricultural sector; the need to remove barriers to market access for CARIFORUM cultural exports to the EU.

Benchmarks for Policy Space stipulate that gender equity criteria and methodology should be fully used to measure the impact of the EPA on households and on the populations in general; CARIFORUM must retain policy space to protect rural livelihoods, family farms and food security in the agricultural sector; CARIFORUM timelines for liberalization should be tied to firm measures to strengthen competitiveness; EPA investment provisions should be crafted so as to stimulate additional FDI flows into growth sectors in CARIFORUM economies; CARIFORUM governments should retain the ability to use measures to stimulate investments that are intended to address specific development goals; domestic and regional authorities should have the policy space to more equitably distribute the economic benefits that may result from trade liberalization; governments should have the policy space to protect the natural environment, especially where FDI in the tourism sector is concerned; the agreement should contain provisions to safeguard the public interest in crucial areas such as public health; the agreement should not lead to the possibility of EU firms being able to sue CARIFORUM governments; the EPA should maintain the possibility for embracing flexibilities which may result from WTO revision of GATT (1994) Art. XXIV; the EPA should not go beyond TRIMS in restricting CARIFORUM countries' right to control the types of investment coming into the region.

The benchmarks on Regional Integration feature the following provisions: the EPA should help to reduce the existing internal barriers among CARICOM and CARIFORUM countries; the EPA should support the strengthening of regional air and sea transport links; it should facilitate the establishment and strengthening of regional institutions to address common problems of market intelligence, standards and other export concerns; CARIFORUM/EU market access should be synchronized with the achievement of specific regional integration goals; the EPA should encourage regional solutions to challenges of small productive capacity of individual CARIFORUM countries; the EPA should provide support for regional language training programmes to facilitate the participation of private sector and civil society representatives in activities at the CARIFORUM level; the EPA should create spaces to encourage national firms to achieve competitiveness in the regional market and foster the creation of regional firms; the EPA should assist in supporting the establishment of redistributive mechanism to mitigate the marginalization of the smallest and poorest CARIFORUM countries and groups; the regional

integration model being promoted by the EPA should be based primarily on CARIFORUM realities rather than on EU criteria.

**Chapter Eight: ‘Assessing CARIFORUM/EU EPA Negotiations using benchmarks ’,**

applies identified benchmarks to assess the conduct of the EPA negotiations between CARIFORUM and the EU. The application of benchmarks is necessarily limited to the negotiations in light of the absence of publicly accessible drafts. The absence of such drafts presents a problem as it does not allow for benchmarks to be applied to the content of the negotiations, nor does it offer much scope for input from interest groups which could influence the shaping of the final agreement. Thus, benchmarks can be applied only to a final document which may not provide clear avenues for amending the agreement where it appears to fall short of development goals. The absence of such mechanisms in the final agreement is likely to compromise the EPA’s ability to deliver on CARIFORUM’s development goals. The success of the benchmarks approach itself is conditional upon the existence of a commitment to change and the provisions of clear mechanisms for achieving this.

**Asymmetry**

As established by the Cape Town Declaration and ICTSD/APRODEV, the benchmarks were used to assess the negotiations on the basis of transparency, inclusiveness, and the need to take account of asymmetry between the EU and ACP. Vast asymmetries, particularly in terms of size of economies and access of resources, exist between the two groups. They are particularly obvious in levels of human and financial resources, natural resources, institutional capacity, levels of development and access to information, *inter alia*. In the negotiating process the EC is at a greater advantage arising from its greater coherence as a regional group with developed mechanisms for conducting external negotiations. Its continued role as the region’s major donor gives it a privileged position in negotiations, leaving the ACP with the paradox of attempting to secure an equal agreement, the achievement of which is premised on the EU’s role as provider of resources. The EU’s role in helping to financially underwrite the negotiations is evident in its support in financing CARIFORUM negotiators attendance at negotiating meetings, supporting the national and regional consultation processes, and in funding studies to inform CARIFORUM’s negotiating positions. The EU’s dominant role in this relationship is evident in its reform of the CAP, where

its reform measures in sugar, has already influenced the environment within which negotiations are being conducted.

#### Resource and information asymmetries

The study found asymmetries in human resources, access to information and weakness in policy formation at both the national and regional levels. It observed that even with assistance from the EC, although invaluable in strengthening CARIFORUM's capacity to engage more effectively in the negotiations, that the problems of resource asymmetries were too vast to be seriously addressed in this way. It concluded that it would be unrealistic to expect EU funding to make a significant difference to the overall imbalance in asymmetries that exist between the two regions. The information asymmetries identified were a weak information base for CARIFORUM to base strong negotiating positions, and weak data collection systems that particularly affected the articulation of positions that take account of new avenues for economic exploration (especially in services) and future areas of competitiveness. The RPTF, which was expected to address this limitation did not succeed in reducing information asymmetries between the two groups. The study observed that RPTF studies would hardly have affected the underlying structure of the data collection systems in place, which would be a longer term process, but would have gone a long way towards identifying the challenges and potential of maintaining existing sectors and encouraging the development of nascent ones. It concluded that even with adequately funded studies, asymmetries would remain, as the negotiations were proceeding in the absence of any connection between the adequacy of data available and the time table for negotiations. Such asymmetries may have been mitigated by an adequately funded RPTF, but would have remained an important constraint.

#### National and regional formulation of negotiating positions

The study observed that national consultations, if properly conducted, were a potentially useful mechanism for helping CARIFORUM to address the absence of national and regional mechanisms for foreign policy formulation. It found, however, severe shortcomings in these processes. There was weak coordination among government ministries and departments, weak input from government officials and then, limited to a few ministries, usually agriculture, trade and foreign affairs, and poor inter-ministerial linkages, which inhibiting the formulation of representative positions. There were also problems in coordination at the regional level of CARIFORUM and CARICOM agencies in identifying objectives, policy formulation and development of negotiating strategies. There was found to be limited engagement between

CARICOM and RNM officials, with an apparent absence of systematic engagement of CARICOM to ensure that the negotiations fully take account of the requirements and dynamics of the regional integration process. There was also evidence of low levels of OECS participation in the negotiations and in shaping negotiating positions.

#### Transparency and Inclusiveness

The conduct of negotiations without any commitment to make the negotiating positions adopted public or to make available drafts of the agreement for public scrutiny, necessarily ensures that the negotiations are not transparent. Thus, the EPA negotiations are not meeting the Cape Town prescription that they be transparent. Frequent public update and discussions on the potential benefits or drawbacks on an EPA, would have helped. However, there was general ignorance of these negotiations across the region, which suggested that there existed a clear need for public information programmes to generate debates around the implications of an EPA, even at this stage.

There was also widespread dissatisfaction with the inclusiveness of the negotiations process, with the charge that some interests were better represented than others. The private sector appeared to be the grouping most consistently engaged, although the traditional sectors dominated at the expense of weaker emerging sectors whose defensive and offensive positions were not clearly articulated. The traditional sectors had a longer history of identifying and defending their interests, particularly in the CPA negotiations.

The attempt to conduct widespread national consultations across CARIFORUM countries, while an important exercise, had limited effect as it was a one-off activity rather than a sustained process. There remains a need for ongoing consultations which would address the need for wider representation, even at this stage of the negotiations. The rigid timeline for negotiations undermined the scope for inclusiveness, providing groups with limited time within which to formulate positions to influence negotiations. This was aggravated by weak data collection systems.

These constraints to the region's ability to present a representative and effective negotiating front do not appear to have been specifically addressed in the scheduling of the negotiations, as the negotiators have not deviated from the strict negotiating timelines set for the conclusion of negotiations. The study observed that it was unrealistic to expect the vast asymmetries that exist

between the CARIFORUM and EU regions to be sufficiently addressed so as to ensure an equitable outcome from the negotiation process. It was also unrealistic also to expect that attempts to address these, while the negotiations are ongoing, would contribute in any significant way towards reducing these asymmetries and to the outcome of the negotiations. The study concluded that, ultimately, the best way to ensure that these asymmetries are not perpetuated by the EPA, is to include flexibility as a central element of the agreement, which would allow for its ongoing adjustment to ensure that they are addressed. It remains to be seen the extent to which the agreement takes account of these asymmetries.

## Chapter 1

### **Introducing Sustainable Development Benchmarks**

In international economic relations, there is a general move away from preferential trade arrangements between developed and developing countries towards agreements that aim at the reciprocal liberalization of trade over a period of time. The transition takes place within the context of WTO rules which place a premium on the principles of non-discrimination and reciprocity among trading nations. Beyond the strictly defined category of Least Developed Countries, the scope for either extending or accessing Special and Differential Treatment is quite limited. This dramatically changes the trade policy environment, development and growth opportunities for small, developing economies that are very open and that have traditionally relied on preferential market access arrangements for the bulk of their international trade.

The EU-ACP Lome Conventions 1975 – 2000 were among the most prominent of the non-reciprocal, preferential trade agreements between developed and developing countries. They were followed by a transitional eight year period of further preferential market access for the ACP group of countries under the Cotonou Partnership Agreement (CPA). This is now being replaced by Economic Partnership Agreements which involve a gradual transition to totally liberalized trade between the EU and six ACP sub-regions. The EPAs are intended to move the ACP countries towards full integration into the global free market economy.

Theoretically, the EPAs offer advantages over other Free Trade Agreements. They have been conceived within the framework of the CPA which has the objective of promoting poverty reduction and sustainable development. Policy statements accompanying the launch of EPA negotiations, claim that they are development-oriented, intended to build capacity and competitiveness, and strengthen the regional integration processes in the ACP sub-regions. At the same time, any special and differential treatment measures contained in them for development purposes must be compatible with WTO regulations. This stipulation challenges the actors concerned to attempt to reconcile at times contradictory or mutually exclusive perspectives on trade and development. It requires a thorough rethinking of development approaches to try to make them fit within neoliberal economic parameters. It obliges policy-makers and socio-economic planners, producers, enterprises and workers to grapple with how to achieve standards of competitiveness that will enable them both to defend market share in the domestic market, and capture segments of international markets. It also challenges governments to defend the interests

of small or marginal producers, sectors and regions and to promote equitable distribution of the growth benefits that trade may bring.

The notion of sustainable development benchmarks involves formulating indicators that seek to determine if the EPA negotiations and the ultimate agreement live up to the sustainable development goals that have been spelled out in the CPA and in the EPA mandate. Benchmarks should also offer policy roadmaps towards the implementation of the EPA. Such an exercise may assist all the stake-holders in the EPA exercise to evaluate their progress and to ensure that at the very least, their societies will be no worse off than before and hopefully will be enabled to advance further along the road to sustainable human development.

### **Benchmarking development in EPA negotiations**

The idea to use benchmarks to assess the development content of EPA negotiations, thus ensuring that they are able to deliver on development goals and to meet Mandelson's commitment that they were to be tools for development, emerged out of the Cape Town Declaration adopted by the EC and ACP in 2002. The aim of benchmarks was to 'assess the conduct and outcome of the ... ACP-EU trade negotiation' (Preamble A). Concerns with transparency and inclusiveness were central to the proposal for benchmarks (Paragraphs B, D, E). Benchmarks were thus a means of encouraging debate and discussion among groups and individuals interested in promoting sustainable development and reducing poverty in ACP countries. Benchmarks would assess the EPA (or other arrangement to replace the trade elements of the CPA) in terms of,

the main **objectives** which should determine the conduct and outcome of the negotiations; the **principles** which should inform the negotiations; the major **issues** which will need to be addressed within the process of negotiations; and the **approach** which should be adopted to the forthcoming process of ACP-EU negotiations (Para C).

Thus, benchmarks would be expected to do the following:

- (1) Assess the extent to which any agreement being negotiated can fulfill the main objectives of the Cotonou Agreement, which are: to promote the sustainable development of ACP countries, including reducing poverty; promote the structural transformation of ACP economies as the basis of their integration (presumably on more favourable terms than currently exists) into the world economy; increase women's access to economic resources.
- (2) Monitor negotiations to ensure that they accord with these salient principles: that they do not lead to the ACP being worse off than under current trade arrangements; that they

respect LDCs' right to non-reciprocal trade preferences; and that they address the needs of small island and single commodity dependent countries.

(3) Monitor the negotiations to ensure that they address these specific issues:-

(a) Market access

- i. That they 'substantially improve the real market access opportunities' for the ACP
- ii. That ROOs should encourage new investment in ACP countries
- iii. That sanitary and phytosanitary measures in the EU do not impede ACP exports and should be implemented so as to minimize extra costs to small scale producers and exporters

(b) Supply-side constraints

- i. That the negotiations ensure that any future agreement addresses supply-side constraints that impede ACP competitiveness, including country-specific programmes geared at addressing this, which are Cotonou plus
- ii. That the review process of past measures and institutional arrangements meant to address supply-side constraints be implemented
- iii. That specific programmes be established to address constraints which impede women's access to resources
- iv. That reciprocity in trade does not stifle the development of infant industries or close off areas of potential growth and structural development
- v. That the EU provides assistance for structural adjustment arising from measures to increase competitiveness
- vi. That the EU provides 'secure and predictable financial and technical assistance' to enhance ACP human and institutional capacities.

(c) Fiscal Dimension

- i. that the EU assists with fiscal adjustment in ACP which arises from liberalized trade, such as loss of customs duties
- ii. That the EU supports initiatives in ACP budgets that facilitate broader objectives of not marginalizing women and the poor
- iii. That the EU provides ACP with budgetary support where necessary and appropriate

(d) Effects of CAP review

- vii. That the implications to ACP of ongoing CAP reform be assessed
- viii. That a consultative mechanism with ACP be established to address/minimize the negative effects of reform

#### 4. Approach to be adopted

The declaration proposed that the negotiations be assessed to ascertain the extent to which it took account of the resource and institutional capacity limitations of the ACP, particularly its small states. This could be done by

- (i) Structuring the negotiations ‘to clearly identify and systematically address the issues of major concern to the ACP with realistic and clearly defined time frames’.
- (ii) Allowing for the involvement of all ‘concerned stakeholders into trade policy debates’ to address resource limitations and to assist in assessing the likely impact of a new trade agreement
- (iii) Ensuring open and transparent negotiations with ‘concerned stakeholders’ in ACP having access to all relevant information and data.

The approach towards constructing benchmarks proposed by ICTSD and APRODEV, and on which this study is based, closely follows these lines. Their interest in establishing a set of benchmarks was to ensure ‘that EPAs can be used as an instrument to work towards the Millennium Development Goals and Beyond’ (p. 3). Its utility was to ensure that in any agreement between developed and developing countries where asymmetry existed, special efforts are made to ensure that trade liberalization promotes sustainable human development (ibid). Benchmarks would thus provide a tool to be used by interested groups in both the ACP and EU as a basis for assessing ‘the substantive progress of the EPA negotiations towards the development goals they should serve’ (p. 4).

The ICTSD/APRODEV approach is premised on two broad principles: that EPAs provide a framework for achieving sustainable development goals, and that competitiveness and equity are fundamental to EPAs, providing guidelines for monitoring progress in the negotiations. Benchmarks are important, they argue, because sustainable development, in its economic, social and environmental dimensions, particularly balanced growth and poverty reduction, are not achieved merely by trade liberalization, but require ‘targeted measures. The specific issues of concern to the authors were the agreement’s ability to address issues of competitiveness and equity. Specifically, these concerns were expressed in relation to the need for the structural

transformation of ACP economies, which required addressing supply-side constraints that inhibited competitiveness of goods and services; the need for measures to avoid closing off ‘areas of potential growth and development-oriented structural change’, including ‘strengthening capacities of domestic manufacturing and service sectors’ (p. 7); and the need to address equity issues, especially in relation to women and the poor.

The paper identified three broad categories of issues for identifying priorities for monitoring, and hence focusing benchmarks:

1. Market access and fair trade which included

- Asymmetry in trade liberalization
- Improved access to EU markets, which targets a range of issues including preference erosion, rules of origin (ROOs), ‘residual tariff barriers’, *inter alia* (p. 10)
- Improved conditions for insertion of ACP commodities exports in the global value chains
- Addressing negative impacts of EU trade policies on limiting ACP exports (TBT, SPS, EU food safety policy, anti-dumping and countervailing measures) and the CAP’s role in generating agricultural imbalances

2. Policy space or space for achieving sustainable development policies

- Policies aimed at overcoming supply-side constraints and attaining competitiveness and productive sector development goals
- Policies addressing social objectives and equity goals such as poverty alleviation and reducing gender inequalities
- Trade policies aimed at selective import liberalization and strategic trade integration within various ACP regional groupings

3. EU resources for development, particularly financial inflows to address

- Costs of overcoming supply-side constraints
- Institutional adjustment, technical assistance and capacity building.

This paper has been commissioned by the ICTSD/APRODEV/ECDPM Consortium to explore these issues in the EU-CARIFORUM context. The authors of the report were given the following Terms of Reference:

1. Benchmarks cover the categories of (a) Market Access and Fair Trade; (b) Policy spaces within the EPA commitments for promoting the competitiveness of CARIFORUM productive sectors, growth with equity and sustainable development; (c) Access to development support for realizing these objectives.

2.They pay specific attention to the following issue areas:-

- i. The impact of EPA negotiations on the regional integration processes in the Caribbean.
  - ii. Suggestions for support measures for Small and Medium Sized Enterprises (SMEs).
  - iii. Specific benchmark to articulate the interests of family farmers.
  - iv. Specific recommendations on gender equity and female poverty.
  - v. The impact of the EPA on selected Caribbean case-studies.
3. Additionally, the authors have added specific considerations that relate to Small Size and development challenges, and that examine the structure and process of the EU-CARIFORUM EPA negotiating process.

The study examines the conditions specific to the CARIFORUM actors, highlighting the considerations that should guide their transition from the relative protection of one-way preferential market access and stable prices for certain agricultural staple exports to an eventual FTA with the European Union. It has explored the views of a cross-section of governmental and regional officials, manufacturers, farmers, small business persons, support agencies for all of the foregoing, organized labour and other non-state actors on the interests and goals they wish to defend in an EPA. It is intended also to stimulate renewed thinking and debate about this coming change in the EU-ACP trade and development relationship, and about the most appropriate domestic, regional and inter-regional policies to promote a successful transition. Given the diversity of the CARIFORUM economies and the time and cost constraints of the project, the approach taken was to select five countries – **Barbados, Dominica, Guyana, Jamaica, the Dominican Republic** - on the basis of the differences and specificities that they represented and use them as case-studies to illustrate the challenges of negotiating an EPA that would favour the development interests of this heterogeneous region. The information captured in the case-studies has been used to advance possible sustainable development benchmarks for the CARIFORUM area.

The rest of the report is divided into eight sections, beginning with a discussion of size and its implications for trade and development. That is followed by a section on trade liberalization and development which reviews trends in the reconceptualization of development over the last three decades with particular reference to ACP countries. Section Three discusses regional integration processes in the Caribbean and examines the complexities of CARIFORUM as the vehicle for EPA negotiations and for an eventual Free Trade Agreement with the European Union.

Section Four gives a review of the predecessors to the EPA, namely trade and development cooperation as they evolved within the context of the Lome and Cotonou Agreements for the last thirty-two years. Section Five presents an overview and analysis of the CARIFORUM-EU EPA negotiations up to the end of Phase Three. Section Six discusses the Sustainable Development Benchmark approach as an instrument for addressing concerns in respect of development and trade liberalization and for guiding development policy-making and strategies. It identifies a number of Benchmarks to be used to evaluate progress in the CARIFORUM-EU EPA.

The concluding discussion will, as far as possible, seek to apply the preliminary Benchmarks framework to assess the ongoing EPA negotiations. Section Eight comprises annexes with material from four case-studies conducted in the preparation of the report.

## Chapter 2

### Size and its implications for trade and development

An EPA between the EU and the CARIFORUM group of countries, with the exception of the Dominican Republic, represents the first time that a group of countries this small is entering into an FTA with large developed countries. Although a novel situation, this may eventually become the norm as developed countries are increasingly reluctant to continue one-way preferential trading arrangements with small, developing states. The most powerful argument being used to radically transform these relations along lines of reciprocal market access is that they are no longer legal under the WTO multilateral trading framework. WTO regulations severely restrict the scope for SDT in trade regardless of country specificities. So, for the Caribbean, the Free Trade Area of the Americas (FTAA), if concluded, would have put an end to the uni-lateral preferential market access agreements they had with the US, under the Caribbean Basin Initiative (CBI) and the Caribbean Basin Economic Recovery Act (CBERA), and Canada, under CARIBCAN. In light of the stalled FTAA talks, and based on the experience of Central America and the DR, the US may pursue a bi-lateral FTA with CARICOM<sup>1</sup>.

The EU has also indicated its reluctance to continue seeking waivers from the WTO for repeated extensions of its preferential agreements with the ACP. EPAs, buttressed by strong development support, are its preferred solution to the problem. EPAs are interesting because they seek to be more than FTAs, going beyond market access to incorporate some of the development dimensions that characterized the Lome agreements, albeit, within the rubric of trade liberalization. Their negotiation thus presents challenges for ensuring the compatibility of goals of liberalization and development.

The CARIFORUM/EU EPA merits particular attention because, as with the Pacific/EU EPA, it brings together some of the world's smallest economies with some of the world's largest in an agreement whose philosophical foundations acknowledge no basis for discrimination on these grounds. The asymmetries between the two groups are so vast, that great care would be needed to craft arrangements that would serve to overcome these, rather than aggravate them. These are reflected in the size of economies and physical land space, populations and available human resources, indices of development, and power, which is less easy to quantify. The most obvious evidence of asymmetries of power is in the uni-directional flow of finance support for development, from the EU to its developing country partners. This is not unique to

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<sup>1</sup> CARICOM has already called for this.

CARIFORUM but characterizes the broader ACP/EU relationship. Ultimately, it places the EU in a superior bargaining position in these negotiations, vis a vis its developing country 'partners'.

Before the addition of Haiti, CARICOM's members were characterized as small states, based on the Commonwealth/World Bank's size indicator of 1.5million people. Jamaica, which has a population of 2.6 million, was included in this category on the grounds that its economy exhibited features characteristic of small states. Both the DR and Haiti, notwithstanding much larger populations, also have small economies so face similar challenges. Additionally, Haiti is classified as a Least Developed Country.

The challenges presented to developing countries in meeting WTO obligations has led to renewed academic interest in the development challenges confronting small states. The Commonwealth, whose membership includes 32 small states, has been at the forefront of attempts to identify the features of smallness which have implications for development prospects, particularly competitiveness. It has received support from the UN, particularly UNCTAD, in attempting to establish some relationship between size and constraints to their development. This has resulted in various attempts to measure the factors contributing to the vulnerability that characterizes small states. Vulnerability has been defined in economic, environmental and social terms. The major indices of vulnerability developed are the Commonwealth Vulnerability Index and the United Nations Economic Vulnerability Index. They seek to lend empirical support to arguments for small states to be accorded special considerations in international trade. The indices show that small states tend to score higher on economic and environmental vulnerability than larger states.

Small states' advocates have experienced limited success, so far, in advancing their case in the main arenas of multilateral trade. Specifically, they have managed to get the WTO (See Doha Ministerial Declaration, para. 35) to agree to consider the 'trade-related issues' involved in their 'fuller integration' into the multilateral trading system, without creating a special category of states to which specific SDT measure would apply. In the context of their relations with the EU, they have managed to get some concrete acknowledgement of constraints imposed by size, which would be expressed in appropriate flexibilities crafted into the EPA.

The challenges that arise for CARIFORUM small economies<sup>2</sup> derive from the following features. Their economies tend to be open, evincing high trade/GDP ratios<sup>3</sup>, which increases their

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<sup>2</sup> Reference Thomas (2005), Demas (1965), Briguglio (), ComW Sec/WB, (2000).

susceptibility to volatility<sup>4</sup>, concretely experienced in the movement of the currencies of their trading partners and fluctuations in the price of their primary exports. Their small physical size unusually coincides with limited natural resources, including arable land, severely curtailing possibilities for economies of scale and for economic diversification. They thus tend to experience a concentration of exports, for which they have relied on preferential access to developed country markets. The small size of their economies also tends to limit the size of the firms operating in these markets and contributes to high operating costs, impinging on their competitiveness. In addition, despite their small size, the requirements of administering these formally independent states and providing for the basic needs of their people tend to be costly, as are their infra-structural needs. One of the problems small states face is the challenge of raising finance on the international market to fund these administrative and capital costs, which are difficult to finance from home because of their small capital markets. The challenge to source such funds, against the context of declining flows of official development assistance and concessionary financing, on which they heavily rely, has led to a burgeoning of debt (both local and external) throughout the Caribbean. Debt to GDP ratios<sup>5</sup> averaged 96% in 2003 (rising as high as 179% in Guyana), and has negative implications for their ability to fund social programmes (World Bank, 2005: 31). This problem is likely to be aggravated by the loss of tax revenues they have been experiencing from the reduction in import taxes arising from WTO obligations and the implementation of the CSME's Common External Tariff (CET) (INTAL/IDB, 2005: 19; World Bank, 2005: 74-76), and which will intensify with the implementation of an EPA or any other FTA. Tariff revenues for the region account for 15% of government revenues (World Bank, 2005: 32) and this is higher for the Bahamas and the OECS. Import revenues, in particular, are a significant income source, contributing to more than 3% of GDP<sup>6</sup> (WB, 2005: 74).

Small island states tend to cover large geographical distances which can present challenges for strengthening regional integration processes and for accessing export markets, as high

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<sup>3</sup> This stood at 118% of GDP for the 1990-2001 period (World Bank, 2005, xxiv).

<sup>4</sup> For competing perspectives on the significance of volatility in the experience of small states see Briguglio et al, 2004 and WB 2005:22)

<sup>5</sup> Caribbean countries are among the most indebted in the world. According to the World Bank (2005: 12) seven of the 10 most indebted and 14 of the 30 most indebted countries in the world are in the Caribbean.

<sup>6</sup> This is higher for some countries. According to the WB (2005: 74), half of Bahamas' tax revenues are from import duties, while import duties constitute more than 15% for Antigua and Barbuda, the Dominican Republic, St. Kitts and Nevis, and Suriname. The WB (2005: 74) calculates significant revenue losses for the region of 2.4% GDP if the FTAA were implemented. It is likely that similar effects will be felt with the introduction of an EPA.

transportation costs<sup>7</sup> increase the costs of such transactions. There is also the challenge of providing adequate transportation, both air and sea, to service their needs.

In terms of some of the social variables that impinge on their competitiveness, limited human resources are primary. This is particularly evident in the negotiating arena (Lewis, 2005; Lecomte, 2001), where the vast imbalance in human resources available to developed countries is evident, and must have some effect on the quality of outcomes. Dominica, for example, has three people in its trade department who are expected to oversee all the trading agreements in which the country is participating – CSME, WTO, EPA, FTAA, and various bi-laterals with countries in Central and South America. Downes (2006) notes that limited human resources have negative implications for the availability and quality of data that is collected for the region. The region’s human resource limitations are further aggravated by its dubious status as having one of the highest out migration rates in the world<sup>8</sup>, particularly of its skilled. Mishra (2006) describes the situation as follows:

The Caribbean countries have lost 10–40 percent of their labor force due to emigration to OECD member countries. The migration rates are particularly striking for the highskilled. Many countries have lost more than 70 percent of their labor force with more than 12 years of completed schooling—among the highest emigration rates in the world.

Consequently, despite high levels of investment in education<sup>9</sup>, there are still low levels of educational achievement, beyond primary school enrolment, to show for this. This is evident in low rates of completion, low rates of secondary enrolment<sup>10</sup> and low levels of tertiary enrolment, although this has increased from 5 to 15% between 1980 and 2000 (World Bank 2005” xxxiii). The Caribbean also leads the world in HIV/AIDS infection rates, with the highest infection rates outside of Africa, which is particularly worrisome, given their small size (ibid: 7).

Considerable attention has been paid to the vulnerability of small states, particularly island states, arising from growing interest in the relationship between development and the environment,

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<sup>7</sup> Even though technology is said to be reducing the cost of communications and transportation, nevertheless, these still remain costly.

<sup>8</sup> It is also the region with the highest levels of remittances as a percentage of its GDP, accounting for 13% in 2002, outpacing flows of FTD and Overseas Development Assistance. Mishra, 2006.

<sup>9</sup> The World Bank (2005:xxi) describes government expenditure on education as high, averaging almost 5 percent of GDP over 1995-2002, compared with 4% for Latin America and the Caribbean. This does not hold for the Dominican Republic which shows low spending on education, averaging just under 2% of GDP Ibid, 36).

<sup>10</sup> The World Bank (2005, xxxii) gives the average enrolment rate for 7 countries as 69%. It notes that poor educational statistics, and consequent low levels of skills, partly reflect the out migration of skills which, if not addressed, ‘will largely end up as a subsidy for developed countries’.

evident in the various UN forums on the environment, discussed below. Island states, in particular, are susceptible to the negative effects of climate change, particularly rising sea levels, and are expected to be disproportionately effected. Already, they are susceptible to hurricanes which can have devastating effects on their economies; the effects of Hurricane Ivan on Grenada's economy is a case in point. The World Bank (2005: 20) describes the Caribbean, particularly the OECS, as being among the most hazard prone in the world, ranking in the top 10 countries by number of disasters per land area and population. Disasters also have a disproportionate effect on small states. Montserrat's volcano reduced its population by roughly two-thirds (from in the region of 13, 000 to 4,681), significantly decreasing its habitable land space (only 130 km<sup>2</sup> to begin with), leading to an abandonment of its capital city. Indeed, as Montserrat shows, natural disasters threaten the very viability of small states. Because of their small physical size, small island eco systems tend to be very fragile and are easily damaged by economic projects (Downes, 2006), requiring sensitivity in all major spheres of economic activity – tourism, agriculture, mining and manufacturing.

Despite these features, though, the Caribbean has tended to perform very well on economic and social indicators, generally registering positively on growth and Human Development indicators, with all of the countries, except for Guyana and Haiti, being characterized as enjoying high and medium human development on the 2005 UNDP HDI. They have also enjoyed favourable FDI flows, above the world average, although this trend has slowed, its FDI to GDP ratio falling from 3.7 times the world average over the period 1990-1994 to 1.9 times over 2000-02 (World Bank<sup>a</sup>, 2005: xxii). In addition, the per capita GDP indicators for most place them in the category of high and middle-income countries.

Despite these favourable indicators, however, the region also displays evidence of low human development, with high levels of poverty and unemployment. Poverty ranges from 12% to 35% for all, except Haiti, which is at 76% (World Bank, 2005: 5) and unemployment from 21.1% in St. Vincent and the Grenadines to 5.1% in St. Kitts and Nevis (ibid: 247). In the agricultural Windward Islands (Grenada, Dominica, St. Vincent and the Grenadines, St. Lucia), in particular, increasing levels of poverty and unemployment have been attributed to the drastic decline in banana production which has resulted from the restructuring of the EU banana regime arising from its own restructuring exercise and aggravated by the unfavourable WTO *Banana Case* which severely curtailed the scope of preferences they enjoyed. This experience lends support to the view that trade preferences and aid packages from developed countries, especially the EU,

have played a significant role in their economic success to date (Horscroft, 2005), and that this is likely to change once the full effect of trade liberalization is felt. The transformation of their relationship with the EU from preferential market access to liberalized trade, thus holds tremendous implications for their ability to compete effectively for market share in the EU and maintain market share at home. This has to be placed against the backdrop of 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 (CARICOM 2006.). 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. Its success must also be measured against the extent to which it enhances or retards their ability to achieve the MDGs, particularly in respect of poverty reduction, which remains a significant problem, and health indicators.

Caribbean states in their negotiations for FTAs with developed countries, both within the FTAA and EPA processes, have sought to give concrete expression to their claim for Special and Differential Treatment (SDT) to address their small size, particularly the structural aspects. This has had some success at the level of general principle, though not necessarily at the level of specific provisions. The challenge for the EPA is to give concrete expression to SDT measures that will be structured to meet the specific challenges that arise from characteristic features of small size, while remaining within the legal boundaries established by the WTO.

### Chapter 3

#### Development, Trade Liberalization and Competitiveness in EPAs

The Cotonou Partnership Agreement (CPA) has as its primary objective ‘reducing and eventually eradicating poverty consistent with the objectives of sustainable development and the gradual integration of the ACP countries into the world economy’ (Article 1). This is restated in Title II which provides the framework for the new trading relationships that would replace the Lome Conventions, although the ordering of these goals appears to be somewhat different, with the achievement of sustainable development and poverty eradication goals hinged on their ‘smooth and gradual integration into the world economy’ (Article 34 (1)).

The EU’s ambition for its new trading relationship with the ACP is for the EPAs to be more than a tool for market access to ACP markets but, rather, a tool for development. A commitment to achieving the development goals of ACP countries pervades the agreement. In the preamble the CPA extends a commitment to providing ‘a coherent support framework for the development strategies adopted by each ACP state’ (preamble). There thus appears to be an implicit, if not explicit, recognition running through the CPA that mere trade liberation was not enough to achieve sustainable development objectives. While the CPA does not attempt to define sustainable development (Chapter 2, article 4), the term gained currency in the context of the UN’s interest in the deleterious effects of the economic approaches to development on the environment, expressed in Agenda 21, arising from the 1992 Earth Summit and the 2002 World Summit on Sustainable Development. It represents part of a broader rethink of development approaches as practised in developed countries and which were being pursued in developing countries, under the auspices of the UN, based on the ‘modernisation’ of their economies, as a means of ‘catching up’ with developed countries. Such a strategy, which was premised on economic growth indicators as a mark of progress toward development, was largely unconcerned with the consequences of development on the environment. The concept of sustainable development was used as a modifier for the development agenda, influencing considerations of the unsustainability of certain economic practices given the fragility of the environment. Thus, central to the concept is ‘changing unsustainable patterns of production and consumption, and protecting and managing the natural resource base of economic and social development’ (WSSD Plan of Implementation, para 2).

### Sustainable Development and EPAs

The concept of sustainable development has three elements, 'economic development, social development and environmental protection' (WSSD Plan of Implementation, para 2).

Poverty eradication is viewed as an indispensable element of achieving sustainable development (para 7). Social development represents an attempt to expand our understanding of what development means by looking at the quality of life people enjoy, rather than the growth indicators of countries. This approach finds its highest expression in the UN's Human Development Report, which was launched in 1990, and which sought to put people at the centre of development, by moving beyond economic indicators to include measures that spoke to quality of life. The HDR thus takes account of poverty, wage levels, educational enrolment, access to health care, life expectancy, gender, inter alia. The Millennium Development Goals (MDGs), adopted by 189 UN members in September 2000, also represent an important recognition that trade liberalization alone cannot improve the conditions of life, especially given trends of polarization of wealth within and among countries, nor can it address broader concerns of social, political and environmental sustainability. The eight goals adopted are the eradication of extreme poverty and hunger, achievement of universal primary education, promotion of gender equality and empowerment of women, the reduction in child mortality, and improvement in maternal health, the combating of HIV/AIDS, malaria and other diseases, ensuring environmental sustainability and developing a global partnership for development (UNDP, 2003). This approach has been embraced by the multi-lateral lending institutions, particularly the World Bank. At the Monterrey Conference on Financing and Development, developing and developed countries sought to achieve consensus on these goals, with developing countries pledging to place them at the centre of their development, and developed countries agreeing to reduce trade barriers and implement debt relief for the poorest countries (World Bank, 2004: v). The CPA also incorporates the MDGs in its preamble, especially the commitment to eradicate extreme poverty by the year 2015, and presents a fulsome definition of development which covers political, economic, social, cultural and environment elements.

While these approaches to take greater account of the quality of human life, poverty and environmental sustainability attempt to modify the development agenda, they do not radically alter it<sup>11</sup> nor do they suggest the form it should take. Thus, development in this conceptualisation

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<sup>11</sup> There are more trenchant critiques that speak to the heart of the development concept itself, which are directed at the assumptions of what development looks like, its desirability as a goal, and the assumption that it represents a progressive stage in the onward progression of humankind. See Norberg-Hodge, Helena, 1991, 'Ancient Futures: Learning from Ladakh,' in Majid Rahnema and Victoria Bawtree (eds.), *The Post*

is not necessarily incompatible with free market neo-liberalist approaches that underpin the multilateral trading system. The preoccupation with poverty reduction by international agencies can be viewed as an attempt to ensure that globalisation, particularly the intensification of trade liberalization, is not viewed as being inimical to poverty reduction and human development, especially in the context of growing negative responses to globalisation and trade liberalization. Concerns in respect of the effect of globalization and trade liberalization have at their centre issues of poverty and inequality, within and among countries. Vayrynen (2005: 9) has observed that ‘poverty and equality have become major yardsticks of the legitimacy of globalisation’. Inequality, especially within countries, is important as it is recognized that increased wealth if unevenly distributed may not have a positive impact on poverty. Inequality among countries provides an indication of who the prime beneficiaries of globalisation and liberalization are likely to be.

The assumptions upon which the CPA itself is based, and which are in keeping with approaches, primarily of the multilateral institutions which form the trade and economic framework for development, are contestable. These are as follows: that poverty reduction and sustainable development are compatible (or achievable) with their integration into the world economy; that there is a single path to development to which all subscribe, that is based on their integration into the world economy; that integration into the world economy is to be equated with the neo-liberal approach to trade which underpins the WTO – in other words, that there are no other viable or legitimate approaches to their integration into the world economy; that integration into the global economy is a desirable goal or one that would necessarily result in their sustainable development. The World Bank makes a direct link between poverty reduction and growth, with international trade viewed as essential to increase growth, which then feeds into raising income levels and ultimately in a reduction in the numbers of the poor (WB, 2003)<sup>12</sup>. Trade remains at the centre of this framework, but there is growing acceptance of the challenges inherent in engagement in international trade, on the part of developing countries, who confront difficulty in developing the necessary structures or framework for enhancing trade. To benefit from the trade-development nexus, developing countries need to have something to trade. This, in turn, is inhibited by supply-

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*Development Reader*, pp. 22-29; Arturo, Escobar (1995), *Encountering Development: the Making and Unmaking of the Third World*, (New Jersey: Princeton University Press); Zaoual, Hassan, 2003, ‘the Economy and Symbolic Sites of Africa’, *Interculture*, Winder 1994.

<sup>12</sup> The World Bank describes a ‘pro-poor scenario’ as including the ‘elimination of export subsidies, decoupling of all domestic subsidies, and the elimination of the use of specific targets, tariff rate quotes (TRQs) and anti-dumping duties or sanctions’. *World Bank Global Economic Prospects: Realizing the Development Provisions of the Doha Agenda, 2004* (Washington D.C.,: World Bank) 2003.

side constraints such as physical infra-structure, which can reduce competitiveness. The latest response by developed countries in recognition of these limitations is the 'Aid for Trade' initiative, which was proposed by the International Monetary Fund and World Bank and was adopted at the December 2005 meeting of the WTO Hong Kong Ministerial. Aid for Trade, as it appears in the Ministerial Declaration, (para 57), 'should aim to help developing countries, particularly LDCs, to build the supply-side capacity and trade-related infrastructure that they need to assist them to implement and benefit from WTO Agreements and more broadly to expand their trade'.

The CPA's commitment to ensuring that the agreement is WTO compatible (article 36 (1)), notwithstanding a commitment to special and differential treatment and an acknowledgement of different levels of development which permeates the document, has raised questions as to the compatibility of these two broad goals: achieving sustainable development while pursuing trade liberalisation within the parameters of the multilateral trading system. The problem comes into sharper perspective when one considers developing countries' refusal to pursue the WTO's built in liberalisation agenda in the absence of a more explicit commitment to development. This reflects their scepticism that trade liberalisation alone was sufficient to achieve their development goals and a growing concern that the international trading framework severely curtailed their flexibility to use measures that were available to now developed countries and which have contributed to their current economic success. This concern has been expressed as 'kicking down the development ladder'. Specific concerns relate to the restrictions under the agreement in Trade Related Investment Measures (TRIMS) on their use of measures to enhance investments and offer protection to infant industries, and the TRIPS which increase the costs of accessing technology.

The fate of the Doha 'Development' Round does not provide much room for optimism that the mere integration of developing countries into the so-called global economy is a necessary prerequisite to achieving development; or that the developed countries at the forefront of the multilateral trading system have the development goals of developing countries as a primary objective. In this light the CPA itself is problematic, as the framework which it sets out for the negotiation of alternatives to Lome are WTO plus, not only in terms of a greater commitment to market liberalisation goals, but its ambitions extend to include the Singapore issues all of which, except for trade facilitation, have been taken off the multilateral trade agenda by developing countries. Thus, the CPA commits ACP countries negotiating trade agreements with the EU to extend the liberalisation agenda to trade-related or behind the border issues, such as competition policy (article 45), stronger IP regimes (article 46) and investment (article 75 (b), article 78). In

its negotiations with regions the EU has been going even beyond these guidelines to include market access in government procurement and data protection<sup>13</sup>. There thus appears to be some contradiction between the CPA's commitment to development and its commitment to adhering to the WTO framework. This is problematic as, in light of concerns around the WTO's ability to deliver development, ACP countries are expecting EPAs to provide an alternative framework for development.

Adherence to WTO rules as the cornerstone of EPAs is also problematic in the context of on going discussions in the WTO Negotiating Group on Rules whose mandate it is to revise GATT Article XXIV, which provides the legal basis for an EPA. The Doha Declaration (para 29) called for the clarification and improving of disciplines and procedures under WTO provisions governing RTAs, which should also take into account their development aspects. Discussions in the Negotiating Group on Rules have focused on the length of transition time, the interpretation of 'substantially all trade', and the expression, in concrete terms, of the commitment to development. For the ACP group (2004), the latter would translate to the inclusion of SDT provisions which do not currently exist under Article XXIV, but which would be necessary to take account of the novelty of North-South RTAs, especially in terms of existing asymmetries, and would also bring them in line with the SDT provisions which are provided for under The GAT, Article V. Specific SDT measures proposed included flexibility in the interpretation of 'substantially all trade' to allow for lower thresholds for developing countries and in respect of the requirement to eliminate 'duties and other restrictive regulations of commerce' that flexibility is exercised to allow their use of 'contingency protection measures including safeguards and other non-tariff measures' (para 11 (i)). The ACP has also called for the extension of transition time to a minimum of 18 years (para 11 (ii)). The EU is also committed to ensuring that development finds expression in a revised GATT XXIV for developing and least-developed countries, through longer transition periods, particularly for 'weak and vulnerable developing countries' and for lower thresholds of liberalization for developing and least developed countries. In its EPA negotiations with CARIFORUM the EU's position has been to insist on its interpretation of substantially all trade as covering an average of 90% of trade, although calculated across the group as a whole, based on higher levels of liberalization within the EU. Difficulties arise, however, in the treatment of CARICOM's designated LDCs and on the EU's willingness to embrace SDT provisions, in respect of this group, which are integral to the CARICOM

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<sup>13</sup> See 'Recommendation authorizing the Commission to negotiate Economic Partnership Agreements with the ACP countries and regions'.

arrangement. Specifically, the EU refuses to accept substantially lower levels of liberalization for this group, despite the challenges their obvious weak economic position vis a vis the EU present.

Thus, despite the CPA's commitments to sustainable development goals, including poverty reduction, ACP negotiations, particularly on the EC's side, appear to be driven by the neoclassical neoliberal approach to development which views liberalised markets as the basis for the efficient allocation of resources and as a means of increasing developing country competitiveness through increasing private ownership, expanding exports and promoting investment as necessary conditions for achieving development<sup>14</sup>. Trade thus provides the basis for higher incomes, higher economic growth, and thus its impact on poverty reduction<sup>15</sup>. The CPA itself enunciates this framework in article 10: 'The Parties recognise that the principles of the market economy, supported by transparent competitive rules and sound economic and social policies, contribute to achieving the objective of a partnership'.

ACP concerns, towards the close of phase one of the negotiating process, that development remain at the forefront of the negotiating agenda, contributed to the Cape Town Declaration, which sought to more concretely ground the EPA negotiations in development goals. Specifically, it sought to present a series of benchmarks by which the conduct and outcome of the negotiations could be assessed (Preamble A). It went beyond reaffirming the CPA objectives of promoting sustainable development goals, poverty reduction and integration into the global economy to include the structural transformation of ACP economies to the production of higher value goods and increased levels of value added (Objectives, para. 1-4). The Cape Town Declaration attempted to address specific issues of concern to ACP countries negotiating with the EU, such as supply side constraints to competitiveness (para 14, 15), scope for infant-industry protection by ACP countries (para 21), the special challenges WTO compatibility poses to small states (para 8), *inter alia*. Specifically, it made a commitment that no ACP state would be worse off in terms of access to the EU market, than it currently enjoyed (para 6).

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<sup>14</sup> This approach made specific to Caribbean conditions is reflected in the World Bank's (2005) prescription for development, and which deemphasises the very problems of constraints to competitiveness, such as supply-side constraints, limited capacity, *inter alia*, which the CPA acknowledges.

<sup>15</sup> For an elaboration see World Bank, 2002, *Globalisation, Growth and Poverty*, and Dollar and Kray, 2000, *Trade, Growth and Poverty*.

The Cape Town Declaration has not allayed concerns over the EPAs' ability to take sufficient account of ACP development goals. Concerns have come<sup>16</sup>, not just from ACP quarters, but from within the EU itself. The United Kingdom's House of Commons International Development Committee's Sixth Report (April, 2005) has called for a hierarchy of priorities with trade liberalisation goals being made subordinate to poverty eradication and development goals. EU Commissioner for Trade, Peter Mandelson (January 2005), in response to such criticisms has proposed the establishment of a monitoring mechanism to monitor development and trade related assistance to ensure that a 'true economic partnership' emerges from the negotiations.

#### Development and a CARIFORUM/EU EPA

Despite the various commitments to development noted above, the treatment of development and related issues in negotiations at the regional level provides some indication as to its likely treatment in the EPAs. Already, in the EU's negotiations with CARIFORUM concern has been expressed on the EU's approach to development. Specifically, the structure of EPA negotiations which, on the EC side, is led by DG Trade, which is authorised to conduct trade negotiations, is considered problematic in respect of achieving development goals. DG development is absent from negotiations, making it very difficult to elicit specific commitments on development from this process (Billie Miller, 2005). Development is further marginalized from the negotiating process with its relegation to the Regional Preparatory Task Force (RPTF) groups that have been established for each region. These RPTFs are not central to the negotiating process but are expected to suggest studies and initiatives for capacity building (See Lodge). Thus the structure of the negotiating process does not provide an adequate framework for fulfilling the EU's commitment that the EPA would go beyond market access goals to serve as a tool for development. Very little funding has yet been disbursed through the RPTF mechanism. Moreover, it has tended to be of a general, regional nature but CARIFORUM countries have not managed to access significant amounts of this supposedly available support funding for preparatory activities.

The treatment of development assistance in the negotiations, particularly to address structural adjustment arising from the implementation of the EPA agreement, provides further cause for

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<sup>16</sup> Civil Society organisations in the Caribbean have been critical of the WTO+ commitment of the EPA negotiations, rejecting an EPA as providing a means for the EU to foist a WTO+ agenda not currently possible to advance at the multi-lateral level. See *Final Declaration of Caribbean Civil Society Organisations Regarding EPAs between the EU and Caribbean Countries*, Santo Domingo, September 21, 2006.

concern. One of the features of an EPA, which is expected to set it apart from other FTAs between developed and developing countries, and contribute to its role as a tool for economic development, is the CPA's commitment of financial and other support to ACP partners, set out in Part 4. This is in recognition of the need to address challenges of adjustment that are likely to occur from trade liberalisation, and supply-side constraints inhibiting ACP competitiveness, as well as capacity constraints. Despite the CPA's commitment to provide financial assistance to address, *inter alia*, macroeconomic and structural reforms, mitigation of adverse effects of export earnings instability, sectoral policies and reforms, institutional development and capacity building (Part 4, article 60), the EU has been reluctant to commit any additional funds beyond that already committed under the EDF. This suggests the absence of a concrete relationship between the ACP need for development funding, and the EU's commitment to providing this support. From the ACP's perspective, it is unlikely that already committed EDF funds would adequately address all the issues that are likely to emerge. The EU's track record with aid disbursement is viewed as a measure of its commitment to providing financial support to the Caribbean to achieve development and to mitigate the most negative effects arising from liberalisation under an EPA. Interviews, conducted in the preparation of this paper, 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 and the DR, 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, and may not necessarily be spent fully to the region's benefit. Specific references were made to the EU's use of its own consultants in projects and the elements of 'tied-aid', especially in respect of procurement procedures, which exist in EU support packages. A concrete suggestion which is inspired by some of the criticisms is the need either to create a mechanism for assessing the type and quality of development support that will be disbursed, or for the establishment of monitoring mechanism, to which Mandelson has committed, including this as one of its functions.

The approach to development in the EPA negotiations is thus an important sticking point in negotiations with CARIFORUM countries. The problem is compounded by the absence of a clear definition of development in the CPA to which both parties (ACP and EU) agree and which could provide the overarching framework for ensuring that EPA measures do not undermine but serve to enhance the achievement of these goals. The CPA clearly leaves this to be articulated by ACP countries, as expressed in Chapter 2, article 4: 'The ACP states shall determine the development

principle, strategies and models of their economies and societies in all sovereignty'. From the Caribbean's side, however, there is no clear statement of development goals which would shape their negotiating position and ensure that the EPA facilitates development outcomes. This reflects a failure at the national and regional levels to articulate a broad agenda for development as the basis for framing their responses to regional trade liberalising regimes. Brewster (2004: 15) notes this disjuncture between trade policy and development strategy: 'Ideally, a regional trade policy should be a derivative of a regional development strategy ... Its absence inhibits the derivation of an international trade policy that is in harmony with and advances such a strategy, the rationalization of priorities, and the formulation of a regional benefits distribution policy'. INTAL/IDB (2005:10), referencing Girvan, attribute difficulty in arriving at a regional development strategy to the different economic structures that exist within the region: oil and natural gas in Trinidad and Tobago; the minerals sector – bauxite – in Suriname and Jamaica; agriculture in Guyana and Belize; services in the OECS and Barbados. The region's failure to articulate a development strategy as the basis for its negotiations, in turn, reflects a broader failing on the part of developing states to define such an agenda, and which can be attributed, in part, to the discrediting of the dependency approach to development to which many ascribed up to the 1970s and which has been overtaken by the neoliberal approach. Developing countries have been slowly articulating a response to this approach through their response to the advancement of the multilateral liberalisation agenda, expressed concretely in the Doha round. These has been focused on the challenges they have confronted in meeting their liberalisation obligations arising from the Uruguay Round, which include high implementation costs – financial and political -- alongside revenue loss, and curtailment in the range of instruments available to influence economic policy in a context of weak to non-existent developed country commitment to provide support for adjustment. Demands have thus been expressed as a halt to further liberalisation, specifically the suspension of the commitment to negotiate the Singapore issues; a binding of developed country obligations to provide technical and financial assistance to help them meet their obligations; and even a repeal of some concessions already agreed to which would increase the policy space available to influence development policy.

Development therefore means, even in the absence of clear articulation, that developing countries are not halted in their ambitions to restructure their economies away from primary goods production for developed countries, towards the production of greater-value added goods; that their options for exploiting new areas of comparative or competitive advantage are not precluded by rules which cut off their potential to use policy to develop emerging areas; that they be

allowed the policy space not just to influence economic development, but to protect vulnerable sectors of their population in keeping with their own vision of their society; and that they have some control over the liberalisation process to ensure that asymmetries between themselves and their developed partners are not increased, but are lessened. In the context of the CPA, these are expressed positively as a commitment to poverty eradication, increasing the competitiveness of developing countries, specifically, moving them up the commodity value chain, already mentioned above. Essential to this is addressing supply side constraints which inhibit competitiveness.

Dame Billie Miller's (2005) summation of Caribbean concerns with negotiations at the end of Phase II indicates some of the region's concerns in respect of an EPA that would facilitate development. These are that the EPA take account of differences in size and development levels between the two regions, reflected in asymmetric liberalisation at the pace set by CARICOM; that exceptions be provided for sensitive products; that while it should contribute to their international competitiveness and integration into the 'global' economy, that this is based 'on a sound development thrust'. She identified concerns at the end of Phase II of the negotiations with 'the scope and pace of the adjustment process' arising from an EPA, especially in respect of 'the burden of financing economic restructuring and export diversification, while adjusting to the fiscal fallout from reduced tariffs'. Such adjustments, she noted, are occurring 'at a time when fundamentalist free trade policies are eroding what little policy space remains available to small, vulnerable developing economies ... foreclosing the development options of countries ... in the Caribbean'.

Development holds special challenges for small states. The OECS, the sub-regional grouping of micro-states which operates within the CARICOM grouping, has developed its own development strategy, which it is in the process of fleshing out, which serves as an indication as to how these countries view their development priorities. This is based on a broad conceptualisation of development which has as its primary focus 'the empowerment of people' and embraces the concept of equity. Its economic dimensions extend beyond increased growth to address structural transformation and improvement in the quality of lives, with a recognition of the need for sustainability (OECS, 2000), in keeping with the definition adopted by the World Summit on Sustainable Development (2002). The specific challenges of constraints to development and the effects of trade liberalisation, especially as expressed in structural adjustment for the Caribbean are addressed in the discussion on small states and in the case studies presented.

## Competitiveness

Competitiveness, which refers to the ability of firms to succeed in the global market place, is at the heart of success in models of development which have goals of increased growth as central. The competitiveness of ACP firms and, especially the Caribbean, has been historically weak. This is evident in the group's general inability to make effective use of access to EU markets, regardless of preferences, which saw its share of the EU market fall from 6.7% in 1975 to 3% in 1998. (Price Waterhouse; Morrissey, 2001). This is one of the main justifications for arguments against EU preferential regimes. The Caribbean's low competitiveness is already evident in declining shares of exports in the EU market which is largely the result of relaxed preferences for their bananas and sugar. The very character of their trade with the EU, which is heavily concentrated on primary agricultural production, indicates their low level of competitiveness. Emerging from the Doha round, there is growing recognition that the competitiveness of developing countries is inhibited by factors outside of their remit or supply-side constraints that include weak infra-structure, such as internal and external transportation linkages, low levels of labour productivity, and extends to broader issues such as health and education. In other words, expanding market access may be a necessary, but by no means sufficient condition for improving a country's competitiveness. This means that reducing access restrictions to developed country markets, and even reducing subsidies to developed country firms, while important and even urgent measures to increase the competitiveness of developing country firms, may not be adequate to address the challenges that developing countries face from global trade.

The challenge of achieving competitiveness is even more crucial for CARICOM's small states and is cause for concern. Interviews conducted in Barbados, Guyana and Dominica point to factors inhibiting competitiveness such as high energy and ICT costs; asymmetry in market information; challenges in meeting EU SPS requirements and other standards; low levels of support for local firms vis-a-viz EU firms, particularly in accessing finance; higher costs of inputs, most of which are imported given the small productive base of their economies; low volumes of production given the small size of firms, which makes it difficult to retain markets; low access to technology; low levels of productivity; limited access to quality human resources; and the inadequacy and high cost of transportation within the region and between the region and its markets. There is concern that the EPA negotiations are too focused on market access at the expense of addressing competitiveness which ultimately has implications for effective market access.

While the competitiveness of regional firms must be addressed in the EPA framework, it is important that competitiveness is not achieved at the expense of key development goals such as reduced poverty, equity, especially in relation to gender, economic diversity and environmental sustainability. In this respect, some of the concerns raised in respect of competitiveness across the region should be noted. The problem of competitiveness in agriculture, evident in the experience of sugar and bananas, has raised concern that the industry's role in sustaining rural livelihoods and contributing to a reduction of rural poverty might be overlooked in an EPA which is focused on competitiveness as the basis of trade and production. The danger is that agriculture's potential for contributing to sustainable development, which should be based on moving agriculture up the value chain and increasing value-added, as well as integrating it more fully with other sectors of the economy, might be overlooked in an EPA. The same challenge holds for the manufacturing sector, in that the focus on the region's competitiveness in services, might well lead to an abandonment of any attempt to encourage manufacturing through increasing value added and providing support for product design, packaging, and the facilitation of technological innovation, in which the EU could have some positive input. A focus on services with a neglect of the role that agriculture and manufacturing could play would serve to increase the region's vulnerability and would certainly not result in a model of sustainable development.

Equity is an important measure of development for the Caribbean region, particularly given its history of gross inequality underpinning the model of slavery on which these societies have been constructed. The WB (2005) has observed the role that equity has played in the development model pursued by CARICOM countries. The WB sees this as being reflected in public spending on education and health, but ECLAC (2005) notes that this is threatened by declining and less efficient spending. The challenge is that development does not occur at the expense of access to social capital, particularly education, which is an important element in the competitiveness of countries. This is important as too rapid market liberalisation arising from the EPA, is likely to severely aggravate existing high levels of unemployment and poverty, certainly in the short run, with implications for access to resources and social mobility. As important as access, however, is the ability of these countries to stem the haemorrhaging of skilled nationals to OECD countries, which should be addressed frontally in an EPA.

## Sustainability Impact Assessments

The EU, itself, even before the official launch of negotiations, had sought to address the challenges and opportunities that EPAs might hold for the sustainable development of ACP states with the launch of sustainability impact assessments (SIAs). These were commissioned in 1999 in two phases. The first involved preliminary stand-alone studies of the three ACP regions -- the Caribbean, West Africa and the Pacific. Phase two saw the compilation of a final report by Price Waterhouse Coopers (2005) which brought the three areas together in a single document.

The approach adopted, especially as reflected in the final document, was based on an assessment of what were determined to be the main areas on which EPAs should focus, which differed across regions. In the Caribbean this was identified as services, specifically tourism; in the Pacific, fisheries, and in West Africa, trade in goods. The approach taken, which features existing sectors, necessarily has a static element. This is evident in the Caribbean study which focuses primarily on tourism, specifically on how to ensure that there is the right regulatory environment necessary to attract investment into the sector, and that further liberalisation occurs which would broaden the sectors open to European penetration. Thus, liberalisation must extend beyond hotels and restaurants to include travel agencies and tour operator services, especially in respect of rights to establishment and the delivery of services.

By focusing on tourism as the main element of an EPA between the EU and the Caribbean without any consideration to agriculture and manufacturing, the authors of the SIA ignore the problems of sustainability and economic vulnerability which have consequences for their economic vulnerability. Moreover, the study's methodological approach which is to focus on a few case studies from which to draw recommendation that are deemed applicable to the entire region, presents an uneven picture of tourism prospects across the region. The World Bank, noting the region's declining share of the global tourism market and the marginal returns that can be expected from further investment, (given the maturation of the product), concluded that the sector may be running out as a source of growth (2005: 7). The SIA study also errs in its uncritical acceptance of all inclusive resorts, introduced by the Jamaican industry, where the intention was to remove the industry from its social context, which was characterised by high levels of crime, poverty and unemployment, but which also served to reduce the spread of benefits from the sector to small players in the industry, such as craft vendors, shop keepers, and others.

Similar criticism could be made for the discussion of the Pacific, where the focus is on an industry of unequal value to various states in the region, and is already facing depletion. While the study acknowledges the sustainability challenges facing the industry, a recent report on global fish stocks, specifically the prediction that stocks will become exhausted in 50 years at the present rate of exploitation, suggests that the issue of resource depletion is much worse. The implication of this is that an EPA that is focused on the exploitation of this resource is environmentally unsustainable. As with the approach to the Caribbean, the focus of one sector is at the exclusion of other sectors such as manufacturing and tourism which could be targeted for development under the EPA. While the study offers some valuable insights in its treatment of Africa, especially on the linkages between poverty alleviation and food security and the role of tariffs, it tends to focus too much on trade rather than on production processes. Thus, the approach to all three regions is heavily premised on EU interests in these regions rather than on what these regions themselves hope to achieve from the EPA. In addition, despite its focus on sustainable development, sustainability is biased towards environmental sustainability, without a recognition of its economic elements and the need for a broad economic platform as a basis for reducing vulnerability.

## Chapter 4

### CARIFORUM and CARICOM Integration

EU, in presenting its vision of its post-Cotonou relationship with the ACP countries, has shown a clear preference for negotiating with regional groupings<sup>17</sup>. Strengthening of regionalism within the various ACP sub-groupings is also an important objective of the CPA, which is restated by the EU in its EPA negotiations<sup>18</sup>. This is strengthened by the EC's designation of the 10<sup>th</sup> EDF as supporting regional integration processes. In EPA negotiations with CARIFORUM, the regional integration process has been a key element, with the EC and CARIFORUM appearing to have different positions on how this strengthening might be expressed and, indeed, more fundamentally, on how the issue should be treated. The CRNM, CARIFORUM's negotiating arm, has insisted in its negotiations with the grouping that the EC should be mindful of the concept of variable geography, to take account of the complexities of the CARIFORUM grouping, which should be expressed in appropriate flexibilities in the agreement. This requires some analysis of the integration arrangements in the region and the implications that the EPA could have for these.

CARIFORUM does not represent an integration grouping. It comprises the CARICOM grouping, which has an integration scheme of long-standing, and the Dominican Republic. CARIFORUM, formed in 1991 was constituted largely in response to European insistence after the Dominican Republic and Haiti were admitted to the ACP group. Suriname and Haiti became members of CARICOM in 1995 and 2002 respectively. CARIFORUM made the administration of the EDF easier, from the EU's perspective, if these countries could be grouped administratively with CARICOM. There is a CARICOM - DR FTA in operation since 2001, currently limited to trade in goods, with a commitment to negotiate services liberalisation, . Negotiations for services liberalisation, and for market access reciprocity with the DR to be extended beyond the CARICOM MDCs to incorporate the LDCs, should have begun in 2004, but are yet to materialise.

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<sup>17</sup> Thus, despite the CPA provisions for three possibilities for this relationship – special arrangements for LDCs that do not wish to negotiate with a regional grouping, alternative arrangements for those non-LDCs that are reluctant to negotiate within a regional group that are not LDCs, and negotiations with regional groupings -- the EU has shown a clear preference for negotiating with regional integration groupings, and appears reluctant to offer attractive alternatives for negotiations<sup>17</sup>.

<sup>18</sup> CPA article; article from EPA negotiations mandate statement

The DR, despite having expressed an interest in joining CARICOM in 1984 and 1987, is more closely associated with the Central American Common Market group of countries. The DR negotiated an FTA with the CACM in 1998, which, after some delay, entered into force between 2001 and 2002<sup>19</sup>. Likewise, the DR and Belize, a CARICOM member state, both participate in some political consultation meetings of the Central American grouping. In 2005, the DR, together with the CACM, concluded an FTA with the United States, the CAFTA-DR. Under this agreement, 80% of the US consumer and industrial goods imported into the CACM and DR become duty-free as soon as the agreement enters into effect. For the remaining 20% of imports, duties will be phased out over a ten year period. More than 50% of US agricultural exports become duty-free upon implementation of the agreement, with the remaining tariffs levied against US farm exports to be phased out over 15 years. For the DR, implementation of CAFTA-DR began in March 2007, when 80% of DR tariffs were reduced to 0%. The CAFTA-DR also has provisions which incorporate some aspects of the pre-existing FTA among the CACM and the DR<sup>20</sup>. It is estimated that the implementation of the DR-CAFTA will lead to a decline in import duties revenue valued at 0.8% of GDP<sup>21</sup>. Within the CARIFORUM context, there have been concerns about the implications of this potentially precedent-setting FTA with the US for the EPA negotiations, particularly for the areas of liberalization and market access.

CARICOM, on the other hand, represents a regional integration scheme of long standing, with its origins in the short-lived West Indian Federation which, between 1958 and 1962, briefly brought together most of Britain's colonies in the Caribbean as an administrative unit in preparation for eventual independence. After the Federation's collapse, its members, along with Guyana, which was not part of the Federation, agreed to continue along the lines of functional cooperation and the integration of their markets largely to address issues of small size, limited resources and weak international bargaining power. The integration movement has gone through various incarnations, moving from the Caribbean Free Trade Area (CARIFTA) which was formed in 1967, to the Caribbean Community and Common Market (CARICOM) in 1973, and the Revised Treaty of Chaguaramas, in 2001, which launched the Caribbean Single Market and Economy.

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<sup>19</sup> The components relating to El Salvador, Guatemala and Honduras came into effect in 2001. The agreements with Costa Rica and Nicaragua were not ratified by their parliaments until 2002. See WTO Trade Policy Review for the Dominican Republic 2002.

<sup>20</sup> See [www.ustr.gov](http://www.ustr.gov), and [www.iadb.intal.org](http://www.iadb.intal.org)

<sup>21</sup> IDB Report: Country Strategy with the Dominican Republic 2004 – 2008, IDB 2004, [www.idbdocs.iadb.org/wsdocs/](http://www.idbdocs.iadb.org/wsdocs/)

CARICOM<sup>22</sup> is not a homogeneous group. With the inclusion of Suriname and Haiti, it is now more linguistically diverse. In addition, the location of two member states on the South American mainland and one, Belize, in Central America, presents different challenges and opportunities. Further, the commitment of members to the integration scheme is not necessarily homogeneous. CARICOM was conceived as two separate agreements, the Community, which focused on functional cooperation, and the Common Market, which was directed at integrating the economies of member states<sup>23</sup>. The Bahamas limited its membership to the Community, so is not committed to integrating its economy with a regional economy. It is not a signatory to the CSME agreement. Montserrat, it must be noted, remains a British dependency although it is a full member of CARICOM, and is awaiting entrustment from the British Government to participate in the CSME. Montserrat has just conceded (May 2007) limited skills mobility to Barbados and the OECS, on a reciprocal basis, but is yet to extend this to the rest of CARICOM (Antigua Sun, 2007). Haiti is the only UN designated LDC in the integration scheme. Haiti's political turmoil, soon after it was accepted as a member, which resulted in its temporary suspension from CARICOM, also presents challenges. Given Haiti's LDC status, it is not yet clear what its commitments in respect of the CSME will be, although there are provisions in the Revised Treaty offering special considerations for LDCs.

The designation of some countries as LDCs (lesser developed countries) -- not to be confused with UN Least Developed Countries -- in the CARICOM treaty, which carries over into the Revised Treaty, reflects another complexity in the movement. Before Haiti's inclusion, the LDCs were Belize and the members of the sub-grouping of the Organisation of Eastern Caribbean States (OECS), which comprises Grenada, Dominica, St. Lucia, St. Vincent, Antigua and Barbuda, St. Kitts and Nevis, Montserrat. The British Virgin Islands and Anguilla have observer status. The OECS represents a deeper integration scheme with a single currency, the East Caribbean dollar, and a unified judiciary. The characterisation of these countries as LDCs is formally constituted in the treaty and carries with it special measures to take account of the perceived disadvantages of this group (Chapter 7 in both the original and revised treaties, but articles 56 and Part Three, respectively). Moreover, further complexity to the arrangement is added with Guyana's

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<sup>22</sup> CARICOM also embraces a number of non-independent Caribbean states as associate members who enjoy some of the benefits of functional cooperation, without undertaking any formal commitments to the treaty. These are Anguilla and the British Virgin Islands (both of which are also associate members of the OECS), Cayman, Bermuda and the Turks and Caicos islands.

<sup>23</sup> This has posed some challenges in the context of the Revised Treaty, which does not offer this separation between the two.

designation as a Highly Indebted Poor Country (HIPC), which is now recognised in the treaty and also carries special provisions (Chapter 7, article 156). These measures in the case of the LDCs, Haiti and Guyana, were designed to avoid economic polarisation and to minimise the negative effects of integration on weaker economies.

Divergences in the movement are also evident in the different indicators of economic performance that exist. A look at human development ranking and per capita GDP, for instance, shows wide differences: There is a wide gulf on the UNHDI (2006) ranking between Barbados, ranked at 31 and Haiti at 154; the Bahamas earned a per capita GDP of US\$16,728 in 2004 and Haiti US\$420 (ibid). There are also wide divergences in terms of population and physical size, with Montserrat, the smallest, having a population of 4,681, and Haiti, the largest, a population of 7,482,000 (CARICOM Secretariat website). Likewise, Montserrat is 103km<sup>2</sup>, while Guyana is 214, 970 km<sup>224</sup>. INTAL/IDB (2005:8) notes differences in the size of economies, with Trinidad's economy representing 30% of the GDP of CARICOM, and the OECS 6%. To underline the issue of diversity in the wider CARIFORUM context, it is worth noting that the DR has a population of 8.9 million and represents one of the largest economies in the Caribbean and Central America. Nonetheless, its HDI ranking is 94 (UNDP, 2005) and per capita GDP is US\$2,370 (World Bank, 2005).

### **Performance of the CARICOM integration Scheme**

One of the main motivations for the establishment of the CARICOM integration scheme was to overcome the disadvantages of small domestic markets and the weak international weight of individual countries. The focus of the economic aspect of integration has been trade liberalisation, with little attention being paid to integrating production structures. Services were also excluded from the process, until their inclusion in the Revised Treaty of 2001. Even after freeing over 90% of intra-regional trade CARICOM is characterised by low levels of intra-regional trade, amounting to 12% of imports and 20% of exports (CARICOM 2006: xxvii). The CARICOM Secretariat has described intra-regional trade as stagnant. It attributes this to the similarity of production structures in agriculture and manufacturing, weak linkages between agriculture and tourism, production of a limited range of intermediate and capital goods, compounded by their failure to source food from the region and the frequent resort to suspension of the CET and safeguard mechanisms (ibid).

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<sup>24</sup> INTAL/IDB's *CARICOM Report* puts it more graphically: Haiti's population is 15 times the OECS', while Guyana is 75 times larger than the OECS and 40 times larger than T&T (2005: 8).

Intra-regional trade shows imbalances across the grouping. The INTAL/IDB CARICOM Report (2005: 10) observes that CARICOM was an important market for Barbados and Trinidad and Tobago, absorbing 45% and 22% of their total merchandise exports, between 2000 and 2005. It was also important for the OECS, absorbing over one-third of OECS exports. Most of this reflects intra-OECS trade and trade with Barbados. On the other hand, CARICOM accounts for only between 5-7% of exports from Belize, Jamaica and Suriname. The Bahamas has almost no trade with other CARICOM countries (ibid). These wide divergences have fostered the view in some quarters that Trinidad stands to gain most from intra-regional trade. As the INTAL/IDB CARICOM Report (pp. 21,23) notes, Trinidad accounts for over 70% of intra- CARICOM exports, and its share of CARICOM market for goods is rising while Barbados, Jamaica and the OECS have all lost market share. The OECS' performance in regional trade shows a declining share, falling from 2.4% to 1.4% between 1980 and 2003 (ECLAC, 2005:7). This has led to a rise in their trade deficit with the region, moving from EC-214m to EC-481m over the same period (ibid). OECS trade with both regional and extra-regional markets is undiversified, with exports concentrated in a narrow range of products (ECLAC, 54). INTAL/IDB (p. 21) argue, however, that Trinidad's successes cannot be attributed to CARICOM preferences, but to the nature of Trinidad and Tobago exports (mineral fuels, lubricants, chemicals and related materials). These products enjoyed low levels of preferences so trade would have occurred in the absence of CARICOM. The DR, although not a CARICOM member state, shows the highest levels of CARIFORUM trade with Haiti, 9% of its exports in 2005 (WTO, 2005). This can be attributed to geographical proximity.

CARICOM's performance in international trade also shows some cause for concern. CARICOM (2006: xvii) notes that the region's trade with the EU is declining, accounting for only 10% of regional merchandise exports, a sharp decline from its position in 1995 where it accounted for 21%. The bulk of CARICOM export trade, 83.6% in 2004, was with the Americas, particularly North America (CARICOM, 2006: 62). CARICOM, thanks to Trinidad and Tobago, now enjoys a trade surplus with the US<sup>25</sup> (ibid: xvii). The explanation for declining EU trade then lies in the loss of market share for bananas and sugar arising from the erosion of preferences. Even here, divergences in the importance of markets are evident. While the EU market is still important to some CARICOM countries -- the Windward Islands, Guyana -- because of the importance of export agriculture which has been sustained by preferences to the EU market, it is less important

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for others. Trinidad, for example, because of the nature of its production which is based on the petroleum industry, has more interest in the US and hemispheric markets<sup>26</sup> rather than Europe in (INTAL/IDB, 2005: 10). This trend is likely to solidify as the traditional agricultural sectors contract further in response to declining preferences. The banana industry has contracted severely and two countries, St. Kitts and Nevis and Trinidad and Tobago, have withdrawn from sugar production.

With the inclusion of services in the Revised Treaty, the CARICOM Secretariat is beginning to pay more attention to the performance of services within the region. Although still small, there is evidence of increased activity (although not necessarily attributable to the CSME) across the region, again, led by Trinidad, followed by Barbados and Jamaica. Intra-CARICOM FDI flows have increased, averaging 10% of total investment flows, most of which comes from Trinidad and Tobago<sup>27</sup> (CARICOM, 2006: xvii, xviii). Trinidad is also at the forefront of a developing bond market which increases the avenues of borrowing for governments and firms beyond the traditional sources ( ). In addition to financial flows, the CARICOM Secretariat (p. xxix) has also noted significant cross-border direct investment primarily in hotels and tourism, food and beverage, cement, airline and shipping transport by companies which it characterised as TransCaribbean corporations (TCCs). These are mainly headquartered in Trinidad and Tobago, and to a lesser extent Barbados and Jamaica. The CARICOM Secretariat observes, however, that these developments do not reflect production integration but more corporate integration<sup>28</sup>, thus the challenge for the integration process is how to promote regional sectoral linkages (pp. xxix, xxx). CARICOM has an additional challenge of how to spread the benefits of intra-regional trade in services to the majority of its members who do not appear to be benefiting much from these developments.

### The CSME

The shift from the Common Market to the creation of a Single Market and Economy (CSME) was an attempt to complete the formation of the single market and move towards the creation of a single economy with the inclusion of policy coordination and implementation in key areas at the

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<sup>26</sup> Trinidad dominates trade with Latin America, accounting for over 80% of total exports to that region, based on mineral resources and proximity. See World Bank, 2005, annex table 4.3.

<sup>27</sup> CARICOM Secretariat (2006: xvii) notes that most of this represents mergers and acquisitions rather than Greenfield investments.

<sup>28</sup> The CARICOM Secretariat (2006: xxix) observes that subsidiary entities tend to be 'stand alone operators' with few linkages in the production process with the parent firm.

regional level. The CSME was a response to the challenges of intensified globalisation and liberalisation, especially of trade and production processes, which were viewed as having negative implications for CARICOM countries' share of markets and for the competitiveness of their economies. The CSME was viewed as a necessary regional space to encourage national firms to achieve competitiveness in the regional market and to foster the creation of regional firms with a better chance of surviving in the global market. At the heart of the CSME, therefore, are goals of competitiveness, productivity, and efficiency.

The single market involves the implementation of a common external tariff, the liberalisation of goods, capital and services, and the gradual liberalisation of labour. The first beneficiaries have been university graduates, media workers, sports persons, artistes and musicians, although the ultimate goal is free movement for all<sup>29</sup> (Article 46, Revised Treaty). In facilitating the establishment of goods and services, it also provides for the removal of restrictions on the movement of skilled persons providing such goods and services. The Single Economy is expected to be completed in 2008 and is expected to lead to the harmonisation of fiscal and monetary policy, sectoral policies in agriculture, tourism, transportation, inter alia.

For close observers of the CARICOM integration process, the unfolding of the scheme is painfully slow<sup>30</sup>. The achievement of the goals of the single market began in 2001 in a gradual process which required the progressive elimination of myriad legislative and administrative barriers (400 legal and administrative instruments) (INTAL IDB: 7). In January 2006, when the formal signing on of countries to the single economy took place, the OECS countries were absent, indicating their unpreparedness to undertake the commitments to which they had agreed<sup>31</sup>. They

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<sup>29</sup> This would be achieved through the gradual expansion in the category of workers authorized to move freely. The category was extended in February 2006 by CARICOM Heads of Government to include artisans, domestic workers, workers in the hospitality industry, nurses and teachers who are not graduates and members of the clergy (CARICOM, 2006: 397).

<sup>30</sup> INTAL IDB (2006: 7) elaborates on the many unimplemented initiatives and unmet deadlines that characterise the integration process.

<sup>31</sup> St. Vincent's Prime Minister, Ralph Mitchell, who held the OECS Chair at the time, delivered an address at the signing ceremony on behalf of the OECS explaining their delay in signing the agreement. Interestingly, in defending the OECS' position, he drew on their early experience with the integration process, beginning with the West Indies Federation to speak of their fear of being marginalized within the wider regional integration process. See Statement by Dr. The Honourable Ralph E. Gonsalves, Prime Minister, St. Vincent and the Grenadines, at the Official Launch of the CARICOM Single Market, 30 January 2006, Kingston, Jamaica. [www.oecs.org](http://www.oecs.org).

signed the agreement six months later after some of their concerns were addressed<sup>32</sup>. They were especially concerned with the funding and operations of the Regional Integration Fund, which they viewed as an essential part of the arrangement in order to offset some of the perceived negative effects of further liberalising their markets to their CARICOM counterparts.

#### The OECS in CARICOM

The experience of the OECS in the regional integration process provides some insight into their reluctance to engage in trade liberalisation processes even within CARICOM – a challenge which the EPA negotiations must take into account. The OECS is constituted within CARICOM as a formal sub-grouping, with its own goal of creating a single market and economy among its members.<sup>33</sup> This speaks to the differing perceptions of viability that exist within a group of largely homogeneous states. All CARICOM states, apart from Haiti, are characterised by the Commonwealth either as small states or as exhibiting characteristics of smallness, associated with which are issues of economic and environmental vulnerability. Despite this, the OECS can be further differentiated by its grouping of micro-states within the arrangement which range from the smallest, Montserrat (102 km<sup>2</sup>) to Dominica (750 km<sup>2</sup>), the largest<sup>34</sup>.

In a region of fairly undiversified economies with a limited resource base, the OECS stands out for its even more concentrated production structures and limited economic alternatives. Their economies have been concentrated, for the most part, on a narrow range of agricultural crops and tourism. The effects of this concentration are most evident in the contraction of the banana industry in Dominica<sup>35</sup>, St. Vincent and St. Lucia<sup>36</sup>, and the sugar industry in St. Kitts, as a result

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<sup>32</sup> Central to their concern was the operation, scope and size of the proposed Regional Integration Fund which was expected to cushion some of the dislocative effects of the CSME and to concretize some of the SDT provisions embodied in Chapter 7 of the Revised Treaty.

<sup>33</sup> The OECS is successor to the West Indies Associated states (WISA) and the Eastern Caribbean Common Market which developed among the non-independent states that emerged from the Federation's collapse. For a full treatment of this group see Lewis, Patsy, 2003, *Surviving Small Size: Regional Integration in Caribbean Mini-states*, (Barbados, Jamaica, Trinidad and Tobago: University of the West Indies Press).

<sup>34</sup> In respect of size, Barbados is a mini-state although it is not a member of this group, nor is it classified as an LDC for purposes of the agreement. Lestrade, 198-, noted this anomaly which points to a degree of arbitrariness in the characterization, although this does not substantially detract from the special difficulties that this group faces. Barbados' characterisation as an MDC (more developed country) was a reflection of its greater readiness for independence and its stronger economic performance, at the time, despite its limited resource base. This element of arbitrariness has been significantly reduced in the Revised Treaty with the inclusion of 'disadvantaged states, sections and regions', as distinct from the OECS, to which SDT could be challenged. It recognizes that it is possible for other countries within the arrangement to experience dislocative effects from the CSME which must be addressed.

<sup>35</sup> The dramatic decline in the WI banana industry can be seen in the reduction of farmers, acreage and earnings in Dominica, arising from the liberalization of the EU banana trade. At the beginning of 1990

of reduced levels of protection for these industries in the EU market. This led to a sharp fall in the contribution of agriculture to OECS GDP from 14% in the 1980s to 7% by 2005 (World Bank, 2005<sup>b</sup>: 8), with exports of bananas and sugar exports contracting by 13% per year between 1998 and 2003 (ibid, 21). as a consequence of these shifts there are high levels of unemployment and poverty averaging 16% and 29%, respectively, albeit with wide differences across individual countries (See [table](#)). A combination of reduced development assistance and increased commercial borrowing to make up for these shortfalls has led to the sub-region appearing among the top 16 most indebted countries (WB, 2005<sup>a</sup> : 14).

The group's vulnerability was highlighted with Grenada's experience with Hurricane Ivan in 2004, which devastated its major economic sectors, tourism and agriculture, resulting in damage worth more than twice its GDP, and Montserrat's volcanic eruptions of 1995 and onwards, which have reduced its population by a third and rendered at least half of its territory uninhabitable. Grenada's economy was more diversified than that of its counterparts with nutmegs, mace and other spices, and cocoa being produced for export. Antigua and St. Kitts are primarily tourism economies, with the industry's importance increasing in St. Kitts with the closure of the sugar industry in 2005. The decline of the agricultural sector has been accompanied by the growth in the role that services, particularly tourism, plays in their economies, which in 2000 accounted for 79% of GDP (World Bank, 2005<sup>b</sup>: 10) and, in 2003 accounted for 80% of total exports of goods and services (ECLAC, 2005: 75). However, ECLAC (77) notes a decline in their share of world commercial services exports since 1991, suggesting some reduction in their competitiveness. The World Bank also notices a worrying trend of increased financial vulnerability with the increase of portfolio investment into the region and net outflows of commercial banks (World Bank<sup>b</sup>, 2005: 17).

Despite these weaknesses in economic structure, as already noted, the CARICOM group enjoys relatively high human development, with five members falling in the high human development category and all the rest, except for Haiti, in the middle human development category. The group

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Dominica had 6,667 active farmers; by 2005, this had drastically fallen to 880. Acreage under banana cultivation fell from 8,900 in 1996 to 2,404 in 2005. Banana exports fell from 61,197 tonnes in 1987 to 10,859 tonnes in 2005, resulting in a fall in earnings from EC\$86,433,000 to EC\$17,813, respectively. This decline in banana production mirrors the decline in agriculture's share of the GDP, which fell from 6.8% in 1987 to 3.41% in 2005. Source: 'Banana Industry Indicators 1987-2004. Prepared by Hector John, ITA, Dominica Banana Producers Ltd 4/28/2006. Figures for 2005 were given by

<sup>36</sup> These countries have been the most negatively affected by the revision of the EU banana regime, reflected in declining growth rates for the industry in 2002/3 of -40% for Dominica, -35% for St. Vincent and the Grenadines, and -34.1% for St. Lucia (FAO, April 2005, Banana Information Note).

thus portrays a contradictory picture of relatively high human development, high vulnerability, low economic diversity and limited economic competitiveness.

The key to the region's relatively favourable economic performance has been attributed, largely to the existence of protected markets and relatively generous packages of aid and concessionary financing from the international community, particularly the EU (Horscroft, 2005). The World Bank notes that of the 58% of OECS goods that are exported outside the region, 70% are destined for markets with preferential access; and, within CARICOM, almost half of OECS exports are protected by CET rates of over 10% (World Bank, 2005: 21). It is widely believed that there is limited scope for competitiveness in a more liberalised trading environment, especially with larger partners where there exists wide asymmetries of power and resources. The experience of the liberalisation of the EU's banana market, arising from its own internal reorganisation of that market as well as in response to the WTO ruling on the *Banana Case*, seems to support this point. Certainly in the context of the CSME the evidence shows differential potential for benefits within the CARICOM grouping. ECLAC's survey of OECS firms reveals concern that they would be able to survive competition within the CSME (ECLAC, 2005: 70). The OECS' experiences with trade liberalisation, so far, in addition to the challenges they face in increasing competitiveness, suggest that they require special attention in an EU-CARIFORUM EPA, if they are to benefit<sup>37</sup>.

The main challenge facing the regional integration movement can be summarised as completing the unification of its markets without comprising the development prospects of its economically less competitive members. The context within which this is to be done is one of increasing rounds of liberalisation under the auspices of the WTO, a growing number of FTAs with regional neighbours, including the DR, Colombia, Costa Rica and Venezuela, a possible FTA with the US and Brazil, which presents the group with challenges for strengthening its own process, especially given the low levels of intra-regional trade that exist, and maintaining its distinct regional personality. Richard Bernal (CRNM: 2007), the CRNM's chief negotiator, characterises the challenge facing CARICOM thus, "It is critically important to synchronise the completion of the

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<sup>37</sup> The WB (2005<sup>b</sup>: vii) has described the challenges facing the OECS thus: 'The Organization of Eastern Caribbean States (OECS) is at an economic crossroads. A secular slowdown in growth, a radical transformation of the external environment, high debt and fiscal imbalances, and persistent unemployment and poverty have combined to create an imperative for redefining the OECS strategy for growth and economic development.'

CSME with the WTO and EPA negotiations to ensure that the Region is not negotiating externally issues not fully resolved in the integration process.” In addition, in the context of CARICOM’s trade both inside and outside of the region, competitiveness of goods and services remains a significant challenge. Haiti’s integration is another issue of great concern.

How the OECS is treated in an EPA becomes extremely important. An EPA which does not embrace special measures to address the inherent lack of competitiveness of these countries and the most extreme manifestations of small size may well result, either in their further marginalisation within the ‘global’ economy, or their ‘integration’ based on the complete dominance of EU firms and the exclusion of local initiatives from the economy, which would be problematic. The challenge for the EPA is to ensure that private initiatives in these countries are part and parcel of their economic development, by facilitating their growth through the use of creative measures in market access, joint ventures and investment. It is significant that the OECS territories are geographically interspersed among the main EU overseas territories and departments in the Caribbean. The EPAs could provide an opportunity for exploring and carefully crafting the building of joint development initiatives.

Table 1: Selected Economic Indicators, 1998-2006 OECS

	Pop (‘000s)	Growth (%) 1980- 2003	GDP pc (US\$) 2004	GDP pc (PPP) (US\$) 2004	Poverty (% pop) Latest	Unemp (%LF) Latest	HDI Rank 2006	Public Debt % GDP	UNEVI 2000 Ranking	Common- wealth CVI 2000 Ranking
Antigua/ Barbuda	79	4.6	10,794	12,586	12	7	59	142	73	8
Dominica	71	3.2	3,794	5,643	33	25	68	122	18	6
Grenada	105	3.8	4,135	8,021	32	13	85	113	60	11
St. Kitts/Nevis	47	4.7	8,447	12,702	31	5	51	171	37	13
St. Lucia	161	4.3	4,663	6,324	25	19	71	66	15	18
St. Vincent/ Grenadines	109	4.2	3,412	6,398	38	21	88	68	32	14
OECS	571	4.1	5,056		29	16		77		

\* Source Worldbank, 2005, except for HDI, and GDP pc (PPP), which is taken from UNDP

Human Development Report, 2006.

(Note that WB figures in *Time to Choose* and in *Towards a New Agenda for Growth* do not always coincide. Sometimes, as in the case of Dominica, they differ wildly)

Vulnerability rankings are taken from Horscroft (2006)

Table 2: Selected Economic Indicators, 1998-2006 Other CARIFORUM

Countries	Pop (‘000s)	Growt h (%) 1980- 2003	GDP pc (US\$) 2004	GDP pc (PPP) 2004	Povert y (%) pop) Latest	Unemp (%) Latest	HDI Rank 2006	Public Debt % GDP	UNEVI 2000 Ranking	Commonwealth CVI 2000 Ranking
Bahamas			16,728	17,843			52	48		
Barbados			10,401	15,720		10.3	31	84	82	37
Belize			3,870	6,747		10.3	95	100	77	22
Dominican Republic			2,130	7,449		5.9	94	56		
Guyana			1,047	4,439		10	103	179	34	17
Haiti			420	1,892			154	44		
Jamaica			3,352	4,163		15.1	104	104	94	53
Suriname			2,484			10.6	89	44	59	24
Trinidad/ Tobago			9,584	15,259		10.8	57	54	78	62
CARIFORUM average								96		

**Table 3 Comparative Data for CARIFORUM**  
HDI and vulnerability rank, GDP, poverty and public debt

Country	HDI Rank 2006	GDP pc (US\$) 2004	GDP pc (PPP) (US\$) 2004	Poverty (% pop) Living under US\$1 a day 1990-2004	Poverty (% pop) Living under US\$2 a day 1990-2004	National Poverty Line 1990-2003	Public Debt % GDP (2003)	UNEVI 2000 Ranking	Commonwealth CVI 2000 Ranking
Antigua and Barbuda	59	10,794	12,586	2.0	9.3	15.5	139	73	8
Bahamas	52	16,728	17,843	N/A	N/A	N/A	48		
Barbados	31	10,401	15,720	N/A	N/A	N/A	84	82	37
Belize	95	3,870	6,747	N/A	N/A	N/A	100	77	23
Dominica	68	3,794	5,643	7.5	21.2	22.0	122	18	6
Grenada	85	4,135	8,021	N/A	N/A	N/A	113	60	11
Guyana	103	1,047	4,439	2.0	N/A	N/A	179	34	17
Haiti	154	420	1,892	53.9	78.0	65.0	44		
Jamaica	104	3,352	4,163	2.0	13.3	18.7	142	94	53
Montserrat									
St. Kitts/Nevis	51	8,447	12,702	N/A	N/A	N/A	171	37	13
St. Lucia	71	4,663	6,324	N/A	N/A	N/A	69	15	18
St. Vincent and the Grenadines	88	3,412	6,398	N/A	N/A	N/A	73	32	14
Suriname	89	2,484		N/A	N/A	N/A	44	59	24
Trinidad and Tobago	57	9,584	15,259	12.4	39	21.0	54	78	62
Dominican Republic	94	2,130	7,449	2.5	11.0	28.6	56		

**Source:** "Bringing Small States Back in: The Caribbean and Pacific in a New World Order", in *SES*, Volume

56, Nos. 1&2, March and June 2007, compiled from the following sources:

Poverty indicators, Human Development ranking, GDP pc and GDP PPP – UNDP (2006).

UNEVI 2000 Ranking and Commonwealth CVI 2000 Ranking –Horscroft (2005), table 3.1.

Debt as % of GDP: World Bank, 2005, *A Time To Choose*.

N/A = not available

## Chapter 5

### Predecessors of the EPA: The Lome and Cotonou Conventions

The CARIFORUM-EU relationship has been shaped by five hundred years of European colonial presence and rivalry in the Caribbean which have left a profound impact on the socio-economic and political institutions of the region. For the Commonwealth Caribbean and Suriname, Lome I in 1975 was a way of moving beyond a fairly exclusive relationship with the former metropole to enter into a new economic and political relationship with the European Community and other former colonies in Africa and the Pacific. The principles and institutions of Lome I were in keeping with the development demands of the 1970s: non-reciprocal preferential market access, sovereignty over political and economic systems and development strategies, predictable flows of development assistance, stable and equitable commodity prices. Lome I to Lome IV Part 1 received some measure of support under Article XXXVI, Part IV of GATT (1947). However, with the advent of the WTO, the parties to Lome IV Part 2 and the Cotonou Agreement had to apply for waivers of the Most Favoured Nation rule before these agreements could enter into force.

The Lome Convention of 1975 was often presented as the flagship of EC development cooperation policy, exemplifying a spirit of equal partnership with the ACP countries. As time went on, however, the development prescriptions of the international community shifted and there came more insistent pressure from the EC on the ACP countries to adopt neoliberal political and economic approaches. From the 1980s onwards, the asymmetries of the partnership and the lack of leverage of the ACP parties were increasingly evident. Nonetheless, the trade and development cooperation relationship retained considerable value for both sides and was renewed at regular intervals over a period of twenty-five years – Lome I to Lome IV, 1975 – 2000. In 1975, there were thirteen Caribbean ACP members. In 1990, the numbers increased to fifteen with the accession of Haiti and the Dominican Republic<sup>38</sup>. In response to the increase in membership, CARIFORUM was established in 1991 as a mechanism for inter-regional dialogue between the Caribbean ACP states and the European Community on trade and development matters.

The Lome Conventions offered non-reciprocal, preferential market access to the ACP for most of their commodity exports. Although agricultural products which fell under the EC Common

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<sup>38</sup> It should be noted that Haiti and the Dominican Republic were not given access to the preferential terms of the Sugar and Banana Protocols. This was viewed by the parties concerned as discriminatory and, at that time, was perceived to downgrade somewhat the value of Lome accession for the Dominican Republic.

Agricultural Policy were excluded, a major exception was the Sugar Protocol whereby ACP traditional cane sugar suppliers to the EU were allocated quotas to be supplied to EC markets at prices that were slightly below the prices paid by the EC to its beet sugar producers, but that were generally above world market prices. This was very significant for the Caribbean in addition to the banana, rice and rum protocols.

The other major dimension of each Lome agreement was a quantum of development assistance. Programmed aid would be agreed upon at the start of each five year period and would consist of country allocations and a regional allocation. Non-programmed aid came in the form of the STABEX and SYSMIN compensation programmes, emergency assistance and loans from the European Investment Bank.

A major review exercise 1996 – 98<sup>39</sup> led to the negotiation of the successor Cotonou Partnership Agreement (CPA) 2000 – 2020. One of the main objectives of the CPA is the gradual integration of the ACP into the world economy. It continues the trade and development cooperation thrust of the Lome Conventions but modifies their provisions in response to concerns that had been expressed about Lome's effectiveness and to ensure compatibility with the rules of the WTO. Emphasis is therefore placed on "enhancing the production, supply and trading capacity of the ACP countries as well as their capacity to attract investment.... and on regional integration initiatives"<sup>40</sup>. Cotonou takes the form of a framework agreement which sets out the major principles, institutions and processes which will define the relationship over a twenty year period. It provides for review exercises every five years. Finally, it contains transitional trade provisions that allow for eight years of non-reciprocal trade preferences for all the ACP, to be replaced in 2008 with two separate types of arrangements: for the WTO-designated Least Developed Countries in the ACP, there is the option of continuing non-reciprocal trade preferences while other ACP countries are offered the chance to negotiate WTO compatible Economic Partnership Agreements, that would open their markets to the EU over a period of time. Failing that, in 2004 they would have the opportunity to explore other WTO-compatible options for trade with the EU (CPA, Article 36, para. 7).

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<sup>39</sup> European Commission, *Green Paper on Relations between the European Union and the ACP Countries on the Eve of the 21<sup>st</sup> Century*, Brussels, 20/11/96, COM (96), 570 final, launched this exercise which engaged the views of most stakeholders over a two year period prior to the launch of the post-Lome negotiations in November 1998.

<sup>40</sup> Bilal and Rampa (2006), p.14.

The CPA also places major emphasis on poverty reduction and on what it defines as the political dimensions of development, namely human rights, democracy, the rule of law and good governance. Development cooperation is intended to support these objectives in addition to the economic objectives stated above.

Lome and the CPA had a mixed impact on the trade and development performances of the ACP countries. By 2003, 96.5% of all imports from the ACP entered the EU duty-free. This included all industrial products and 80% of agricultural products (European Commission 2005, cited in Bilal and Rampa, 2006). Yet, 25 years of trade preferences did not enhance ACP competitiveness overall. The ACP's share of the EU market declined steadily, accounting by 2006 for only 2% of the EU's imports, down from 8.9% in 1970 and 6% in 1980<sup>41</sup>. Most ACP countries remained heavily dependent on EU trade preferences and indirect price supports and did not diversify their production or trade beyond a narrow range of traditional commodity exports.

In contrast to many other ACP countries, Caribbean external trade flows are split between Europe and the Western Hemisphere, particularly the United States. Caribbean trade with the EU has been dominated by the sugar, banana, rice and rum industries. The extent of individual countries' reliance on one or the other of these industries, along with the market access they happened to enjoy, determined their levels of trade with and dependence on the EU market<sup>42</sup>. So, for example, while the Windward Islands and Guyana remain heavily reliant on the EU market, the Dominican Republic, although it is now the largest supplier of organic bananas to the EU, conducts only 12% of its trade with the EU and is heavily oriented towards the United States market<sup>43</sup>. In

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<sup>41</sup> Figures taken from ACP Doc. 26/068/96, Brussels 23 August 1996, p. 9 and EC Trade Statistics, EU25 – ACP, [http://trade.ec.europa.eu/doclib/docs/2006/april/tradoc\\_12146.pdf](http://trade.ec.europa.eu/doclib/docs/2006/april/tradoc_12146.pdf)

<sup>42</sup> So, for example, the banana industry flourished between 1980 and the mid-1990s, accounting for over 50% of the foreign exchange earnings of the Windward Islands. Unfortunately it went into dramatic decline thereafter, in the wake of WTO rulings which modified the EU market regime for bananas. Sugar has been an important staple industry for Guyana, St. Kitts, Jamaica, Barbados and Trinidad, but extremely dependent on the higher – than – world – market prices paid by the EU. The regional sugar industry is now in severe crisis after the EU's move in 2005 – 6 to reduce sugar prices by 37%. St. Kitts, in particular, has withdrawn from sugar production. Ironically, one of the most competitive Caribbean products, rum, was subjected for years to quotas under the Rum Protocol. These were only lifted after the EU and the US negotiated a liberalization of the trans-Atlantic wine and spirits market in 1997, whereupon the Caribbean rum producers lobbied successfully for an assistance package to develop their competitiveness in a liberalized market.

<sup>43</sup> There are contradictory figures for DR trade with the EU. While government sources indicate that the EU market accounts for 12% of trade, a CIECA/OXFAM study puts DR trade with the EU and its dependencies at 28% of its foreign trade. See H. Galvan, *Sensibilidades Comerciales Productivas y Fiscales de la Republic Dominicana ante los Acuerdos de Asociacion Economica (AAE) CARIFORUM-UE*, CIECA/OXFAM, November 2006.

general, for the traditional agricultural sectors, their foreign exchange earnings, the employment they generate, their levels of organization and long familiarity with the European market have enabled them to maintain a significant influence on economic policy-making and on economic diplomacy in CARIFORUM. In 1992 just before the launch of the Single European Market, agricultural exports accounted for 54% of all Caribbean exports to the EU. However, it must be noted that, with the steady whittling down of exclusive preferential market access throughout the 1990s, this had fallen to 24% by 2005<sup>44</sup>. Non-traditional exports, although still relatively insignificant, have increased in volume (Lodge, 2004). However, diversification away from the traditional agricultural sectors has been proceeding very slowly<sup>45</sup>. Arguably, the need for diversification was accepted late and there has been a lack of resources to invest in intensive development of other products or sectors. There may also be some amount of tension between short term relief extended to disrupted sectors, displaced labour and communities and long term investment in the development of alternative, non-traditional exports.

There are indications that CARIFORUM's future competitiveness in the EU market will lie partly in organic agricultural production and partly in the export of services like skilled labour, entertainment and other creative industries, tourism and financial services. There is also scope for trade and interaction in cultural and other exports catering primarily to the sizeable Caribbean diasporas in EU countries. However, the successful exploitation of these possibilities will depend on negotiating an EPA that makes adequate provision for development support and for strengthening competitiveness, and that promotes mobility of people and services both within the Caribbean and between the Caribbean and the European Union.

The other important dimension of EU-CARIFORUM relations has been development assistance. Since the inception of the Lome Convention, the EU has been a very significant donor to the Caribbean, providing 2.3 billion Euros in development assistance to the CARIFORUM countries between 1976 and 2000. Funds have been spent on developing the transport and communications infrastructure, on business and tourism development, on agriculture and fisheries, on health and drug abuse control, on sustainable development, human resource development and governance<sup>46</sup>. While Lome I and II prioritized physical infrastructure, health and education investments, Lome

<sup>44</sup> Eurostat, "External Trade EU25 – ACP Caribes"  
[http://trade.ec.europa.eu/doclib/docs/2006/april/tradoc\\_128146.pdf](http://trade.ec.europa.eu/doclib/docs/2006/april/tradoc_128146.pdf)

<sup>45</sup> A useful discussion of diversification efforts can be found in Laurent E. (2004), "The Banana Dilemma: The Challenges Facing CARICOM", *The Integrationist*, Vol 2 (2), pp. 25 – 32.

<sup>46</sup> European Commission, *The Caribbean and the European Union 2002*, DE 113, May 2002,  
<http://ec.europa.eu/development/body/pubs/>

III emphasized rural development and Lome IV provided support for Structural Adjustment Programmes in a number of countries. A large amount of EU development assistance has been in the form of grant aid and on a per capita basis, the tendency historically was for the CARICOM LDCs to receive larger allocations than the CARICOM MDCs<sup>47</sup>. While the overall evaluations of the results of EU development support are positive, there have been problems of low levels of absorption and slow rates of commitment of funds attributable to a mix of capacity and bureaucratic factors<sup>48</sup>.

The most recent reports on EU-CARIFORUM development cooperation on the one hand show continuity with the earlier picture. There is still considerable emphasis on infrastructural funding in the National Indicative Programmes. For Guyana, 63% of EDF 8 was earmarked for repairing the country's sea defences. Likewise, Jamaica has designated over 30% of EDF 9 to its road management programme and Dominica, a portion of funding to road and airport improvement. Countries continue to draw heavily on EU emergency support after natural disasters to repair damaged infrastructure. Another major area of focus for Jamaica, the Dominican Republic and Guyana continues to be the provision of support for their macro-economic reform processes taking place in collaboration with the international financial agencies. The third major area of support has been in the areas of health (Barbados: 90% of EDF 9) and educational reform/human resource development (Dominican Republic: over 40% of EDF 9; Barbados: EDF 7, 8).

A newer area of emphasis is private sector development which has been allocated over 20% of EDF 9 in Jamaica and which consumes 8 – 10% of EDF 8 funds in Guyana. Finally, in many countries, a proportion of EU funding is allocated to poverty alleviation programmes<sup>49</sup>. Banana and sugar exporting countries have also received payments intended to soften the impact of declining trade preferences for the banana sector and, more recently, provide compensatory payments to sugar producers affected by the sharp fall in prices. For bananas, the Special System

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<sup>47</sup> Sutton P., "The European Community and the Caribbean: main dimensions and key issues" in Sutton ed. *Europe and the Caribbean*, 1991.

<sup>48</sup> Sutton (1991), pp. 108 – 115.

<sup>49</sup> Information taken from the following sources: Delegation of the European Community in Barbados and the Eastern Caribbean/Office of the National Authorising Officer in Barbados, *Cooperation between the European Union and Barbados Joint Annual Report 2004*; Delegation of the European Commission to Guyana, Suriname, Trinidad and Tobago, Aruba and the Netherlands Antilles, *Cooperation between the EU and the Cooperative Republic of Guyana: Joint Annual Review for 2004*, 17/10/2005; Republica Dominicana/Union Europea, *Informe Annual Conjunto 2004*; Jamaica/European Union ACP Partnership *Annual Report 2003*; Delegation of the European Community in Barbados and the Eastern Caribbean/Office of the National Authorising Officer in Dominica, *Cooperation between the EU and the Commonwealth of Dominica: Joint Annual Report 2004*.

of Assistance was in place from 1994 – 1999 to the tune of 78 million Euros and was replaced in 1999 by the Special Framework of Assistance (SFA) which provides ACP producers with approximately 45 million Euros per annum<sup>50</sup>. Dominica has benefited considerably from the SFA funding which provides approximately three times the quantum of resources as its National Indicative Programme. This has been used for diversification projects, to redeploy displaced banana farmers and minimize the social impact of a declining banana sector. Edwin Laurent makes the point, however, that for most of the banana producing territories, the greater share of restructuring funds over the years went into productivity projects. For a long time, diversification was not fully embraced politically or psychologically. Serious programmes of this nature were launched tardily. The moral of the story would seem to be that small countries with limited resources cannot afford the luxury of having unclear objectives. It may lead to wasting money, time and opportunities. The sugar sector is now faced with a similar challenge.

In conclusion, it is clear that the EU and CARIFORUM have been engaged for a long time in a positive process of development dialogue and cooperation. EU development support has made a substantial contribution to sustainable development and poverty reduction in the CARIFORUM countries. For many CARIFORUM states, the EU and its member states are still the major international donor. Even though the ACP countries may no longer be considered the EU's leading aid beneficiaries, given the European Union's changed domestic and regional circumstances, EU development assistance has become all the more significant as CARIFORUM countries' access to concessionary financing has decreased and their levels of indebtedness have risen sharply.

It is in this context that the disagreements on development support in the EPA negotiations must be understood. Both sides seem to have defined development support primarily in terms of financing. While the CARIFORUM members argue for additionality of resources, the EC points to the considerable sums that have already been provided under the CPA in EDF 9 and in the form of banana and sugar payments. As far as the record of aid usage goes, much of it clearly fits into a sustainable development and

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<sup>50</sup> Laurent (2004), pp. 25 – 32.

poverty alleviation framework. A substantial part of the expenditure has also been identified for essential physical and social infrastructure that would underpin competitiveness. However, it is equally evident that capacity-building for the private sector and for public and private support agencies will require additional financial resources and other forms of assistance that are yet to be fully thought through.

## Chapter 6

### CARICOM-EU Negotiations for an Economic Partnership Agreement

Article 36 of the Cotonou Partnership Agreement, adopted in June 2000, stated that the ACP countries and the European Union (EU) would conclude by December 2007 new WTO-compatible trading arrangements which would progressively remove all barriers to trade between them. Such arrangements would be introduced gradually and would be preceded by a preparatory period of non-reciprocal trade preferences, similar to the trade arrangements of the Lome Conventions. This preparatory period, it was envisaged, would be used by the ACP states to strengthen their regional integration, the competitiveness of their industries and to upgrade their infrastructure. Article 36 provides the basis for the EPA negotiations between the ACP and the EU.

EPA negotiations have taken place in two phases. Phase One entailed talks between the entire ACP group on the one hand and the European Commission led by the Directorate-General for Trade on the other. In Phase Two, the focus shifted to regional negotiations between each of the six ACP regions and the European Union.

#### **Phase One: The All ACP-EU Talks**

Phase One was launched on September 27 2002 in Brussels. It was intended that this phase should define the format, structure and principles that would govern the negotiations. The ACP used the style of organization and operation established during successive Lome and Cotonou negotiations. Political direction came from the ACP Council of Ministers while the actual negotiations were conducted by the ACP ambassadors based in Brussels. The ACP negotiators divided themselves into six Working Groups on the following issues: Market Access, Services, Agriculture, Trade Related Issues, Development Cooperation, Legal Issues. The EU had a single negotiating group for which the DG Trade was the spokesperson. Phase One lasted for one year from September 2002 to October 2003. The talks did not advance much during this period as there were major divergences between the EU and the ACP on a number of issues, namely:-

- The ACP wanted this all-ACP/EU phase of talks to culminate in a binding general framework agreement under the umbrella of the entire ACP. The EU was opposed to this, arguing that the Cotonou Partnership Agreement already provided such a commitment.
- The ACP pressed for a fuller incorporation of development concerns into the EPA process, arguing that there was a need for additional development funding to ensure

adequate preparation for the trade negotiations and for the implementation of trade liberalization. The EU maintained that development cooperation issues were adequately covered in the context of the Cotonou Agreement and that there should be no additional funding provided beyond the amount already available under the Ninth European Development Fund.

- In view of the strong linkages between trade rules being negotiated in the WTO Doha Development Round and the EPA negotiations, the ACP proposed a joint ACP-EU Steering Committee on WTO negotiations. The EU was not in favour of such a formalized arrangement<sup>51</sup>.

These divergent positions were never resolved. In fact, the EU-ACP different approaches to development issues have continued to affect the progress of the negotiations. In terms of support for preparing for the EPA negotiations, an amount of 20 million Euros was designated by the EU and a management entity, the Programme Management Unit, set up in Brussels in 2001 - 2002 to administer this facility. It was envisaged that the funds would support information sessions, negotiations training exercises and national or regional sector and product studies. However, up to one year after the launch of the negotiations, it was reported that disbursements were proceeding very slowly and funding had only been provided for some regional consultation seminars in 2002<sup>52</sup>. Another EU response to the development concerns was to propose that in each ACP region a Regional Preparatory Task Force should be established. This would be a specific unit, comprising officials from the European Commission, the ACP countries and regional organizations, which would monitor the negotiations and give advice on the type of support that would be needed to implement the EPAs. The unit would provide the link between the development cooperation mechanisms in the Cotonou Partnership Agreement and the EPA process.

Ultimately, the All ACP-EU Phase One of the EPA negotiations culminated in October 2003 with a Joint Declaration and Report which merely stated the areas of agreement, the ongoing differences and recommended some ways of possibly resolving the latter<sup>53</sup>. The areas of convergence were mostly the principles and objectives which had earlier been contained in the Cotonou Agreement:-

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<sup>51</sup> For reports on the proceedings of the All-ACP/EU phase of the EPA talks, see M. Julian, K. Van Hove, "EPA Negotiations Update", *Trade Negotiations Insight*, Vol. 2 (2), April 2003; M. Julian, "EPA Negotiations Update: Start of Regional Negotiations", *Trade Negotiations Insight*, Vol. 3 (1), January 2004.

<sup>52</sup> M. Julian, "EPA Negotiations Update", *Trade Negotiations Insight*, Vol. 2 (3).

<sup>53</sup> M. Julian, "EPA Negotiations Update", *Trade Negotiations Insight*, Vol. 3 (1).

- Cooperation should lead to the sustainable development of the ACP countries, to their smooth and gradual integration into the global economy and the eradication of poverty. The economic cooperation should promote sustained processes of growth, increase the ACP countries' production and supply capacities, foster the structural transformation and diversification of their economies and should support their processes of regional integration.
- The EPAs should be instruments for development.
- The EPAs must support and not undermine existing regional integration systems in the ACP regions.
- The EPAs should preserve the preferential market access *acquis* that had been established under the Lome and Cotonou Agreements.
- The EPAs should be WTO compatible. In this regard, the ACP and the EU agreed to cooperate in the WTO context in order to defend the arrangements that would be reached in the EPAs on the basis of the flexibility that existed in the WTO trade rules at the time that the EPAs were being elaborated.
- It was agreed that Special and Differentiated Treatment should be accorded to all ACP states, especially to Least Developed Countries, small, landlocked and island countries.
- On the issue of Market Access, there should be flexibility and asymmetrical access to reflect the asymmetry between the ACP and the EU, the Cotonou Agreement *acquis* should be preserved and improved, and at the end of the EPA negotiations, no ACP state should be worse off than it was before the start of the negotiations<sup>54</sup>.

## **Phase Two: The CARIFORUM-EU EPA Talks**

### **Guiding Principles**

The CARIFORUM-EU EPA negotiations were launched in April 2004. In addition to the principles already adopted, CARIFORUM sources emphasized the following: support for the countries' national development strategies; enough flexibility in the EPA implementation schedules to accommodate the individual circumstances of different countries; a wide range of SDT measures which may even go beyond the current WTO rules<sup>55</sup>.

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<sup>54</sup> See *ACP-EU EPA Negotiations Joint Report on the All ACP-EC Phase of the EPA Negotiations*, ACP/00/118/03 Rev. 1, ACP-EC/NG/NP/43 Brussels, October 2, 2003.

<sup>55</sup> Caribbean Regional Negotiating Machinery, *Plan and Schedule for CARIFORUM-EC Negotiation of an Economic Partnership Agreement*, mimeo, March-April 2004.

### **Structure of Negotiations**

The CARIFORUM-EU negotiations have a complex three level structure. At the highest level, political direction is provided by Ministerial representatives from the CARIFORUM Group and by the European Commissioner for Trade on the EU side. Dame Billie Miller, Minister of Foreign Affairs and Foreign Trade of Barbados is the chief CARICOM Spokesperson and she is supported by a ministerial troika from Belize, the Dominican Republic and Saint Lucia. At the second level of Principal Negotiators, the EU is represented by a senior official from the Directorate-General of Trade while the Director-General of the Caribbean Regional Negotiating Machinery speaks for the CARIFORUM countries. At the technical level, the EU is represented by officials of the Directorate-General of Trade, supported by personnel from other Directorates when necessary. The CARIFORUM has adopted a similar mechanism to the formula that CARICOM member states used 1995 - 2004 in the FTAA negotiations. The negotiations are handled by the RNM. RNM technical experts and additional expertise recruited from member states are organized into a College of Negotiators, each individual responsible for negotiating particular subject areas. The main subject areas are Market Access Issues, Trade Related Issues, Services and Investment, Legal and Institutional Issues.

Consultation with national actors is carried out through the medium of Technical Working Groups convened before and after each negotiating session. On these groups sit national representatives, CARICOM personnel and RNM officials. In addition, the RNM has periodically organized national consultation sessions on the EPA process, of one to two days in duration, in each CARIFORUM country. At the national level, some CARIFORUM countries have established special units to coordinate their international trade negotiations (eg. the Dominican Republic's *Oficina Coordinadora de la Comision Nacional de Negociaciones Comerciales*), while some others have set up national consultative bodies to disseminate information and get policy input from the various productive sectors and other non-governmental organizations (eg. Barbados, Jamaica, Guyana, Trinidad and Tobago). The level or form of organization is not uniform across the CARIFORUM territories with some places evidencing minimal organization at the national level. Generally, in the OECS countries, there is less active involvement 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. Most of the OECS preparation for the negotiations is coordinated by the OECS Secretariat, working in conjunction with the CARICOM Secretariat and the RNM.

Three conclusions can be drawn from observing the structure and organization of the negotiations. The first concerns the marked asymmetry of the two sides' resources, representation and organization. The European Union, in addition to possessing overwhelmingly greater financial, human and infrastructural resources for the negotiations, has much more institutional coherence and a clear institutional mandate. Thus it has a more substantial and tighter organizational structure for the EPA negotiations. On the other hand, CARIFORUM's complex bureaucratic organization reflects its limited regional mandate and its concern to ensure representation of diverse national constituencies. Notwithstanding its efforts, there is evidence that some countries and non-state actors perceive themselves to be under-represented and marginalized in the negotiations and the tensions that are generated by such perceptions may adversely affect the dynamic of preparation and coordination<sup>56</sup>. Likewise, government administrations have had to adjust to the shift from Phase One of traditional Lome/Cotonou-type negotiations in Brussels by national representatives to Phase Two where the national input is channelled via a regional College of Negotiators. This has taken place in a context where domestic circumstances and stakes in the negotiations are quite heterogeneous and intense levels of intra-CARIFORUM talks are required to arrive at joint positions. It is questionable whether the structure and the pace of the negotiations have provided adequate space for such consultations and for the formation of consensus.

Moreover, although the RNM team is productive and highly motivated, there is enormous asymmetry between the paucity of its numbers and the wide spread of issues each official has to handle, compared with the battalions of their EU counterparts. In short, there are tremendous capacity constraints and institutional challenges for the CARIFORUM in the organization of its negotiations.

There are strong signs that consultations at the national level have been limited and uneven – this, despite the RNM'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

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<sup>56</sup> Observations to this effect were made by some actors interviewed in the Dominican Republic in December 2006. Likewise, reservations were expressed in both Jamaica and the Eastern Caribbean about the limited involvement of non-state actors eg. the labour movement, NGOs and small to micro-sized businesses.

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 FTAA 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. All these indications have worrying implications for the sense of ownership and hence the perceived legitimacy of the agreement that may result from the EPA process for CARIFORUM actors.

Finally, there is considerable evidence of a lack of preparedness for the EPA negotiations. While the different stages of the negotiations roll along inexorably according to set deadlines, there has been a lag in the execution of impact studies for various sectors, products and countries. Negotiators are therefore working on the basis of scarce data and incomplete information in many areas and national stake-holders seem ill-equipped to supply the missing links. Institutional incapacity and inertia, and also the failure to specifically earmark resources for this purpose at an early stage are two of the main reasons. Although several projects were identified through the medium of the RPTF, funding was not made available in a timely fashion. This has had negative implications for Stages Three and Four of the negotiating process, when the participants deal directly with market access and liberalization schedules.

### **Stages and Progress of the CARIFORUM EPA Negotiations**

Phase One of the CARIFORUM-EU EPA talks took place between April and September 2004. The objectives were to establish the priorities for both sides in the negotiations and set the timetable for the rest of the negotiations. This stage also saw the establishment of the Regional Preparatory Task Force (RPTF) tasked initially with commissioning research on CARIFORUM capacity building in priority areas of Caribbean regional integration. It was also envisaged that during this phase, a regional network of Non-State Actors would be organized and their views, together with the feedback from various interest groups, would be used in the negotiating process. Finally, both negotiating sides were supposed to solicit the tangible financial and technical support of a wide circle of donor agencies for the EPA negotiation and implementation process<sup>57</sup>.

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<sup>57</sup>RNM (2004) *Plan and Schedule for CARIFORUM-EC Negotiation of an Economic Partnership Agreement*, unpubd. mimeo.

The first two objectives seem to have been accomplished. However, little financial support was forthcoming for the study proposals put forward and a regional network of non-state stakeholders failed to materialize at that point.

The second phase of the negotiating process lasted one year, from September 2004 to September 2005. Talks focused on the various facets of Caribbean regional integration with the aim of “establish(ing) a common understanding on the priorities for support of Caribbean regional integration, and the targets to be attained by the time of the commencement of implementation on January 1, 2008 and beyond”<sup>58</sup>. These discussions did not make much headway. The two sides held very different conceptions of the advancement of regional integration in the Caribbean. The European Union has proposed that the CARIFORUM should become a comprehensive integration area, deepening market liberalization among all its members and harmonizing many aspects of their trade policy. It would wish to regard the CARIFORUM as a regional grouping with an established legal personality and a mandate to enter into binding, uniform commitments for all its members. The CARIFORUM states, on the other hand, point to the disarticulated and very specific ways in which they relate to one another. Fifteen countries are members of CARICOM. As we have noted earlier the Bahamas has opted not to become a member of the CARICOM Single Market and Economy and the OECS countries have requested longer timeframes for compliance with CSME liberalization. Haiti’s CARICOM membership was suspended between 2003 and 2006, due to CARICOM’s reservations about its interim administration, but even before that, Haiti’s social and economic incorporation into the regional grouping seemed paralyzed due to prolonged problems of governance in the country. There has been a moratorium on Haiti’s application of the CARICOM Common External Tariff, a problematic issue since 65% of Haiti’s tariff lines are zero-rated while other CARICOM countries’ tariff rates are higher. The Dominican Republic’s partially implemented Free Trade Agreement with CARICOM is a source of dissatisfaction for both parties<sup>59</sup>. Additionally, the Dominican Republic is a party to the CAFTA-DR Agreement, which provides for extensive market liberalization between itself and the United States. CAFTA-DR and its FTA with the Central American Community countries, adopted in 1998, involve an orthodox neoliberal

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<sup>58</sup> *Ibid.* p. 5.

<sup>59</sup> See CARICOM Secretariat, *Status of Implementation of the CSME – a presentation at the Caribbean Annual Private Sector Meeting, 10 June 2006, Bridgetown, Barbados*, [www.caricom.org](http://www.caricom.org) CARICOM Secretariat; CARICOM Secretariat (2005), *CARICOM Trade and Investment Report 2005*, CARICOM Secretariat, Georgetown, Guyana; CNNC Interviews conducted in Santo Domingo 15<sup>th</sup> December 2006.

approach to trade liberalization and may well have implications both for the DR's trade links with CARICOM and its participation in the CARIFORUM-EU EPA.

While some stakeholders in the Dominican Republic are impatient with the pace of market liberalization across the CARIFORUM area, CARICOM's position on integration has been that regional market liberalization can only take place at a pace that is acceptable to its members and that does not impose undue adjustment challenges on its small economies. CARIFORUM has therefore proposed that the principles of variable geometry and differentiation should guide the process of deepening regional integration and that it should not be speeded up to accommodate the implementation deadlines of the EPA. On the one hand, this means that most liberalization commitments will be made at the national rather than the regional level as the EPA negotiations progress. It also means considerable variation amongst these commitments and the possibility of offering greater market access to the European Union in certain areas than exists among the CARIFORUM countries themselves.

Phase Three of the EPA negotiations lasted from September 2005 to December 2006. Three objectives were listed for this phase:-

- Shaping the draft structure of the EPA agreement;
- Consolidating the conclusions on priority issues for CARIFORUM regional integration;
- Agreeing on an approach to trade liberalization<sup>60</sup>.

During 2006, meetings of the Technical Negotiating Groups were held in March, May, July, September and November. It would appear that considerable progress was made in the area of Trade Related Issues. Consensus texts are said to be emerging on innovation and intellectual property, competition policy, personal data protection, the environment and sustainable development, movements of capital and transparency in government procurement.

In the area of Services and Investment, the two sides have outlined their approaches to trade liberalization in services and investment. CARIFORUM has stated its interest in a wide range of business and professional, cultural and entertainment services and in the liberalization of Mode Four services delivery to the EU market. The EU, on the other hand, has expressed interest in the provision of tourism services, and services in a range of infrastructural areas, business and finance. There may be a number of challenges to reaching an eventual inter-regional agreement, not least among them the issue of national regulation of business and professional services in

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<sup>60</sup> RNM (2004), *Plan and Schedule for CARIFORUM-EC Negotiation of an Economic Partnership Agreement*, p. 6.

each EU member state and restrictions that apply to liberalizing both cultural industries and Mode Four service delivery. While CARIFORUM is ready to make its initial services offer, the European Commission is still engaged in consultations with member states. Nonetheless, both sides have emphasized the importance of services and investment in the future development of the CARIFORUM region and the need for the agreement to contain development-enhancing commitments.

Least progress has been made in the negotiation of Market Access where there appears to be a wide gulf between the two sides' approaches to trade liberalization. The differences are linked to the earlier disagreement on the nature and process of regional integration in the Caribbean. The EU has advocated beginning with the harmonization of tariffs among the CARIFORUM countries, followed eventually by a uniform process of external liberalization. This proposal is not acceptable to the CARIFORUM countries, most of which have heavy debt burdens and are deeply dependent on trade taxes for government revenue. They have proposed instead a system of three tariff "baskets", that would include a list of products excluded from the liberalization process, a basket of national lists of products with zero duty and a basket of products on which there would be phased tariff reductions after a grace period. Notably, the zero duty lists would be presented on a national, rather than a CARIFORUM basis, and, in the case of the basket of products destined for a phased reduction of duties, neither Haiti nor the CARICOM-designated LDCs (OECS, Belize) would be required to contribute to these lists. They differ also on whether bound rates (preferred by CARIFORUM) or applied rates (preferred by the EU) should be used, and on the duration of the transitional period. CARIFORUM would wish the maximum length of 25 years to apply as far as possible, while the EU argues that this may be incompatible with WTO rules and may only be possible for a limited range of products, to be negotiated on a case-by-case basis. On the subject of Rules of Origin, both sides appear to be still engaged in internal consultations and CARIFORUM lacks a lot of information from producer sectors. In any event, ROOs are one of the issues that are being addressed at the All-ACP level.

CARIFORUM has proposed a special chapter in the EPA treaty on Agriculture, given the sector's historical and contemporary significance in their countries' economies and trade relations with the EU. This proposal appears to have finally been accepted by the EU, although the major CARIFORUM proposal of a Special Safeguard Mechanism for agricultural, fisheries and forestry products is still under intense discussion. Some degree of consensus seems to exist in the area of SPS provisions and technical cooperation in that area.

A major theme of disagreement throughout the negotiations has been the issue of development support. On the conceptual level, there is the question of what constitutes “development support” in a trade and development context. Most CARIFORUM countries are still in the process of rethinking their development strategies in the neoliberal, global environment and have not yet made major contributions to this discussion. Some have formulated medium term development plans or competitiveness strategies, while others have not yet produced any blueprint<sup>61</sup>. At the international level, there are differing interpretations of the new concept of Aid for Trade. A narrow interpretation, favoured by some developed countries, limits it to supply-side capacity building and trade-related infrastructure, while a broader interpretation, supported by many developing countries, stretches it further to include the adjustment costs of trade liberalization<sup>62</sup>. The concept is all the more confusing as it is futile to distinguish between aid for trade and aid for development more broadly, particularly in small, open economies which are heavily dependent on international trade<sup>63</sup>.

In the EPA negotiations, development support has been largely interpreted to mean development finance and some observers feel that insufficient attention has been paid to the need to establish viable trade-related institutions and to institutions and measures that will build competitiveness. Instead, stake-holders from both sides have focused on demanding or with-holding additional resources. The EU began by insisting that the proper forum for development issues is the Cotonou forum and the EPA is a trade negotiation. They have been reluctant to commit themselves to providing large amounts of new financing for trade-related development support. The CARIFORUM, on the other hand, is very concerned about additionality. Trade-related support, adjustment support, they argue, should not come from the already over-stretched resources of the 9<sup>th</sup> EDF, but should be provided out of new funding. A break though came in September 2006 when the EU accepted that there should be crosscutting development provisions in the treaty and called on the CARIFORUM countries to suggest areas for development support. CARIFORUM members are still formulating these requests but the question of additionality of resources especially for sectors like the agricultural sector, remains a contentious one.

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<sup>61</sup> Some development plans and Competitiveness Strategies include Trinidad and Tobago, *Vision 2020*, Ministry of Planning and Development, Government of the Republic of Trinidad and Tobago, 2006; *The National Strategic Plan of Barbados 2005 – 2025 (Draft)*, Ministry of Finance and Economic Affairs, Government of Barbados, June 2005; the Plan Nacional de Competitividad (1998) and the Consejo Nacional de Competitividad (2002) of the Dominican Republic. Jamaica recently announced that a preparation process is underway for the *Jamaica 2030 National Development Plan*, <http://www.jis.gov.jm>.

<sup>62</sup> See E. Parsan, *Aid for Trade: A Caribbean Perspective*, Caribbean RNM Study, May 2006, pp. 5 – 9.

<sup>63</sup> Parsan, p. 9.

The progress of the Legal and Institutional Issues Group is dependent on the resolution of some of these questions in the other negotiating groups. For example, they will in due course advise on how the theme of development support can be integrated into the EPA text. There is also the over-arching question of the legal status of CARIFORUM and whether CARIFORUM states will sign on to the EPA as individual states or as a regional entity. This has considerable implications for the type of dispute settlement mechanism and other institutions that will be contained within the agreement.

The final phase of the EPA talks are scheduled to take place between January and December 2007, with the expectation that a document that is ready for signature will be produced by September 2007. The pace of meetings for all the Negotiating Groups, the Principal Negotiators and the Ministers will intensify during this period. However, there are mixed signals about the current state of the negotiations. On the one hand, there has been a joint ACP-EU Statement from Brussels in March 2007 that negotiations are on track and expected to deliver EPAS by year end. On the other hand, growing sentiments are expressed from various quarters, particularly from non-state actors in the Caribbean that no EPA should be signed precipitately and that the CARIFORUM region is not yet prepared<sup>64</sup>. These assessments have been borne out by the various indications of the difficulties faced by CARIFORUM government in reaching consensus on negotiating positions<sup>65</sup>.

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<sup>64</sup> See, for example, *Final declaration of Caribbean Civil Society Organizations regarding EPAs between the EU and Caribbean Countries*, Santo Domingo, September 21, 2006; “Barbados Private Sector Trade Team joins calls for slower EPA Talks”, *The Nation*, 11/06/2007, [www.nationnews.com](http://www.nationnews.com)

<sup>65</sup> See E. Courtenay, COTED Chair, “Trade Challenges Require Direct Response”, CARICOM Press Release 31/2007, 15/02/2007, [www.caricom.org](http://www.caricom.org); M. Julian, “EPA Negotiations Update”, *Trade Negotiations Insights*, Vol. 6 (3), May-June 2007.

## Chapter 7

### Sustainable Development Benchmarks for a CARIFORUM-EU EPA

The Concept of Benchmarks, their potential utility and challenges in the context of the EPA

In its most elementary sense, a benchmark provides a reference point, a criterion by which to measure something and assess its significance or progress in relation to more global objectives. In the context of the CARIFORUM-EU EPA, sustainable development benchmarks have been proposed as a tool that would help policy-makers, negotiators, economic and social development actors to construct and to evaluate a free trade agreement that would go considerably beyond the norms expressed in the WTO rules. WTO norms provide guidelines mainly for the liberalization of trade in goods and services. However, in the case of developing countries in particular, it is argued that trade liberalization alone is unlikely to transform their economies. It must be accompanied by programmes to strengthen the capacities of domestic institutions and productive sectors and build their competitiveness. Likewise, at the same time as it removes market barriers, public policy must address issues of poverty alleviation and equity if a balanced development process is to be achieved (Corrales 2007a; Corrales 2007b).

The benchmarks would help to provide this additional dimension. They would be used to measure how much the agreement could facilitate the achievement of national and regional sustainable development goals. They could provide guidelines on the types of domestic and international policies and support measures that would be necessary in order to achieve the development objectives. They would therefore help to ensure that the text and implementation of the economic partnership agreement remain true to the development commitments made by all parties at the inception of the CPA and EPA negotiations.

Theoretically, sustainable development benchmarks sound like an excellent idea. However, expectations should be tempered somewhat by the following considerations. The fundamental premise underlying the formulation and application of such benchmarks

is that neoliberal economic restructuring and sustainable development are compatible. In fact, this premise is still subject to much debate. The WTO Doha Development Round, which was intended to reform international trade rules and leave more space for the pursuit of development objectives is in a precarious position. Increasingly it seems that the development initiatives of the round are being whittled down and many of the crucial concerns of developing countries may be jettisoned in a bid to salvage the talks from complete failure (Zedillo 2007). Developed countries, meanwhile, have been energetically using the route of regional or bilateral trade agreements to secure the type of trading arrangements that they regard as optimal (Gordon, 2006a, 2006b).

So one may question the development-friendliness of international trade rules in general and the possibility for many countries of achieving the desired development transformation by means of this vehicle. Hence the ultimate utility of applying development benchmarks to this process may be questioned. Nonetheless, the surge in regional trade agreements provides another argument in favour of the use of sustainable development benchmarks, especially in the case of agreements like the EPAs. Given the overwhelming power asymmetries in such negotiations, establishing development benchmarks may help the actors adhere more closely to their objectives, measure their progress and craft a more favourable agreement. One of the strongest arguments in favour of benchmark-setting is that it obliges states to focus on the design and implementation of appropriate domestic policies and on finding the means to strengthen the public and private sector agencies that will help to build national competitiveness. In the final analysis, although the importance of having a conducive international environment is indisputable, domestic actors will bear considerable responsibility for development transformation.

This leads us to another major assumption underpinning this concept which is that the actors have pre-established, well coordinated national and regional development visions. In the case of the CARIFORUM, the picture is more fragmented than that. While some countries have recently updated development plans and formulated competitiveness strategies, others are just embarking on the process. CARIFORUM is quite

heterogeneous. There is no CARIFORUM-wide regional development plan and even within the Caribbean Community, a regional market and regional development vision are making slow progress. This may well complicate the application of benchmarks and slow the formulation of appropriate policies. Any benchmarks for this diverse grouping of economies will need to emphasize flexibility in their content and in their application.

There are also practical and logistical challenges to making optimal use of bench marks. The formulation of extensive, well designed bench marks requires energetic, sustained, wide-ranging consultations, ongoing dialogue and excellent coordination among all sectors of the national and regional economies. It requires the existence of clear development objectives. Although such dialogue was attempted in the Caribbean, there was often disconnect and a lack of policy coordination among the various administrative levels (regional, state, local) and among the various economic and social sectors. Consequently the input of all stakeholders was not obtained. Due to a lack of resources, there were delays in executing sensitivity and impact studies for various sectors and products. In some cases, such impact studies have not been done at all. Thus, the vital information required for the timely development of negotiating objectives or related bench marks was missing.

Benchmarks require two types of responses. On the one hand, they put the onus on domestic and regional institutions and producers to analyze international trade rules and trade agreements to identify their margins of flexibility and to formulate and implement policies and strategies that will stimulate development. These are attainable insofar as the institutions concerned have the necessary capabilities and political will to execute the policies and as long as they obtain the resources that they need to do the job. On the other hand, the use of benchmarks also means that policy-makers and all other stake-holders should scrutinize the agreements that have been drafted to verify if they are true to the original objectives. If it is evident that they will not facilitate the attainment of sustainable development goals, the agreement should be modified or rejected. But this, of course, necessitates great transparency in the formulation of bench marks and development objectives, transparency in providing public information on the trade

negotiations process, and transparency in allowing public examination and discussion of the commitments arrived at. Considerable political will may be required for the decision-makers to reject an international agreement. If the consultation, benchmarking and monitoring process has been sufficiently open, the decision-makers may feel that they indeed have a mandate for the abrogation of a trade deal that would not lead to the development of their society.

The ability of interested groups to influence the outcome of these negotiations is dependent on their access to the negotiating positions of both the EU and the particular ACP region of interest, and the opportunities that are provided for them to make meaningful inputs into their countries' negotiating positions. It is also dependent on their ability to accept or reject positions arrived at from the negotiations. It is unlikely that any negotiating process would be this open to influence by interested groups. In addition, even if information is made available to such groups on a timely basis, the negotiating schedule, which stipulates that negotiations should be concluded by the end of 2007, reduces the scope for meaningful input.

The benchmark approach, if it is to be effective, must become an institutional aspect of the EPA agreements and not be limited to evaluating the negotiating process. It must be a tool to serve the life of the agreement. There must therefore be a monitoring mechanism, responsive to the benchmarks approach, which extends beyond the life of the negotiations. To be meaningful, it would have to be guided by the overarching principle of flexibility, going beyond market access timelines and coverage, to include the review and refashioning of elements of the agreement itself which may be inimical to the development of the ACP countries. The EU would have to commit to this goal for any such system to be workable. In the absence of such a commitment, the result may well be an exercise in frustration, where an engaged civil society and private sector identify weaknesses in the EPA's ability to deliver development, but have no explicit commitments or mechanisms for redress.

The benchmark approach thus represents only a small element of what is needed to ensure that EPAs function as tools for development rather than mere tools for facilitating greater EU access to ACP markets vis-à-vis other developed countries. Nevertheless, its use, particularly in the implementation and post-implementation phases, should highlight some of the development challenges that arise for ACP countries.

An approach to formulating benchmarks for the CARIFORUM EPA

The ICTSD, APRODEV, ECDPM and others have already done considerable work on developing generic benchmarks that can be used by developing countries in general to evaluate trade liberalization agreements and processes in which they may be engaged. This study attempts to apply their approach to the Caribbean region. Therefore many of the benchmarks that follow flow from the concerns of CARIFORUM stakeholders themselves, civil society actors, private sector representatives, regional and government officials. The study contains overarching normative benchmarks that are based on the sustainable development objectives of the CPA, the ACP-EU Joint Parliamentary Assembly Cape Town Declaration on Trade of 2002 and the all-ACP/EU Declaration in 2003 which concluded Phase One of the EPA negotiations. There are also benchmarks relating to the negotiating process and its preparation. Finally, there are benchmarks to evaluate the content of the eventual agreement. These are grouped under the headings of Market Access and Fair Trade, Policy Spaces, Development Support, Regional Integration. It is to be noted that competitiveness and sustainable development considerations are also included within these broad headings.

The ICTSD approach has been modified somewhat to specifically address the features of the region. Considering the small size of most of the Caribbean ACP member states, the particular asymmetries of size and resource endowments that exist between the two regions must be taken into account. Size considerations are a fundamental principle as they cut across the three categories identified by the ICTSD/APRODEV around which benchmarks should be structured: market access, policy spaces and the provision of EU development resources. In addition, the high levels of indebtedness affecting most

countries in the region, while not a feature pertaining only to small states, should have implications for the construction of benchmarks across these three categories.

For all EPAs, the evaluation of equity should extend beyond more narrow concerns with poverty alleviation and gender discrimination to embrace the entire agreement. This means that the entire agreement should also be assessed on the basis of whether the ensuing benefits will be fairly distributed between the two regions. This is an important element in assessing asymmetry as it addresses the asymmetry of benefits that may derive from the EPA.

Regional integration schemes are an important aspect of EPAs since they are the main element around which they are to be structured. The rationale for this is that EPAs with groups of countries committed to integrating their economies provide a more feasible basis for ACP integration into the global economy. This is so because integration provides increased scope for achieving greater economies of scale and enhances their attractiveness to EU investors. The value of integration schemes is seen to lie, not merely in their presentation of larger markets, but in their inclusion of rules and regimes which increase their attractiveness to investors, who would perceive greater gains to be had from investing in a regional, rather than national space. The prominent role of regional integration in the EPA framework suggests that benchmarks for assessing the effects of EPA negotiations, and ultimately of the EPAs themselves, on these processes should be developed. It cannot be assumed that EPAs will always succeed in positively influencing regional integration groupings in accordance with their own stated direction. In negotiations and agreements where power asymmetries are a reality, it becomes prudent to assess the extent to which ACP regions, as opposed to the EU, are beneficiaries. Such benchmarks are relevant to all ACP regional groupings negotiating EPAs.

## **Sustainable Development Benchmarking Indicators**

### **Overarching Normative Benchmarks**

- i. To what extent are the principles and objectives of the CPA and Cape Town Declaration (2002) reflected in the agreements?

Objectives: To promote the sustainable development of ACP countries including the reduction of poverty; To promote the structural transformation of ACP economies as the basis of their integration into the world economy; To increase women's access to economic resources.

Salient principles: The EPAs should not lead to the ACP being worse off than under current trade arrangements; the EPAs should respect the LDCs' right to non-reciprocal trade preferences; the EPAs should address the needs of small island and single commodity-dependent countries.

- ii. Will the EPAs contribute to the achievement by the ACP countries of the Millennium Development Goals?
- iii. To what extent does the agreement move CARIFORUM countries towards adopting standards, institutional and regulatory models which are based on EU realities rather than on the peculiarities of the CARIFORUM region?
- iv. To what extent does the agreement favour the creation of market access over market building?

### **The EPA Negotiations Preparation and Process**

- i. Have the formation of trade policy and the development of a regional negotiations strategy been informed by effective systems of national consultations?
- ii. Has there been adequate participation by all stakeholders, including the labour movements, the environmental NGOs, consumer associations, the non-traditional export sectors and micro-enterprises in the consultations processes?
- iii. Has the preparatory period shown evidence of adequate or effective public information programmes addressing the potential external and internal implications of an EPA?
- iv. Has the structure, organization and scheduling of the negotiations process facilitated the full representation and participation of all CARIFORUM states?
- v. Has there been adequate interministerial coordination in the formulation of national objectives, policies and negotiating strategies for the EPA?

- vi. Has there been adequate coordination at the regional level among the regional agencies of CARIFORUM and CARICOM concerning the identification of objectives, policy formulation and the development of negotiating strategies?
- vii. Have the preparation and conduct of the negotiations been informed by adequate data collection and sensitivity research on sectors and products in the various CARIFORUM countries?
- viii. Have the structure and sequencing of the negotiations sufficiently focused on development concerns, or have they privileged market access issues without linking such commitments to development concerns?
- ix. Has there been adequate transparency in the EU's approach to services negotiations? Have the 27 different sets of national legislation on services industries been made available to CARIFORUM officials?

#### **Development Support**

- i. Development support for the EPA must involve considerable additionality of resources. Adequate funds must be provided to strengthen CARIFORUM countries' existing capacities and to build new capacity for functioning on new bases. These funds should not come out of existing development funding under the EDF which is being fully utilized for sustainable development purposes.
- ii. The focus for CARIFORUM policy-makers, notwithstanding the challenges posed, must address broader development issues as well as the need to meet shorter term financial commitments.
- iii. Development support should extend to support for debt rescheduling and debt reduction for CARIFORUM countries.
- iv. Development support should primarily target the smaller producers who have more limited resources and capabilities. The EPA should contain effective measures for capacity-building for micro-enterprises and small farmers to equip them to access EU markets and to maintain their positions in domestic and regional markets.
- v. Development support should aim to strengthen private sector capacity. It should improve firms' data collection and analysis capabilities. It should improve their use of ICT for market research. It should provide technical support for CARIFORUM exporters

to get private sector certification in EU markets. It should provide support for brand building and for trade promotion exercises.

vi. Development support should target several levels and categories of human resource development. There should be support for managerial training, for the development of technical competence and a significant amount of support should go to public and private sector agencies that support CARIFORUM businesses to enable them to expand their work in competitiveness-building.

vii. Development support should include assisting the process of developing/implementing local and international health and environmental standards in both the services and goods sectors. A significant part of this process would be the strengthening of capacity to meet EU and international SPS criteria and regulations.

viii. The agricultural sector in the region should be another focal point for development support because of its centrality for food security, rural development and employment. Moreover, it still provides the largest volume of exports to the EU.

ix. Development support allocations must be based on gender equity data and considerations. In particular, some development support measures should be targeted at addressing the supply-side constraints faced by women small farmers and entrepreneurs.

x. Development support should be directed at significantly bolstering environmental regulatory capacity in CARIFORUM countries. National legislation and institutional capacity should be brought into line with international treaty standards.

xi. Support for the sustainable development agendas of the CARIFORUM countries should take fully into account the consensus reached between states and NGOs in the 2005 SIDS Review Conference in Mauritius on coastal zone management, water resources management, solid waste management, investment and land use particularly in the tourism sector, and the encouragement of sustainable energy policies.

xii. The EPA development goals should fully subscribe to the principle of social responsibility and make some safety net provisions for groups likely to be marginalized by the process of trade liberalization.

xiii. The EPA should strengthen CARIFORUM's capacity to monitor, regulate and control the activities of large foreign fishing fleets and to combat unsustainable fishing practices in their maritime jurisdictions and EEZs.

- xiv. Development support measures must address the development of renewable energy sources and the sustainable use of energy in the CARIFORUM region.
- xv. The EPA must contain some monitoring mechanism to ensure that its implementation does not deepen poverty or further feminize poverty in the CARIFORUM region.

### **Market Access and Fair Trade**

- i. Will the elimination of EU tariffs and the CARIFORUM tariff reduction schedules ensure asymmetry in liberalization commitments as justified by the huge differences in development levels between the parties? In this respect, does the EPA effectively allow for the longest possible transition timelines for CARIFORUM sectors and products?
- ii. Do the EPA provisions constitute effective market access solutions to the negative impacts of EU trade-related rules on TBT, SPS, CAP and EU food safety rules? What additional measures will be required?
- iii. Does the expeditious implementation of duty free and quota free access for all ACP countries and all exports mitigate the adjustment costs of phasing out the commodity protocols?
- iv. Will the EPA provisions effectively implement Mode Four movement of workers from CARIFORUM to the EU, a vital component in the development of the service export sector and the expansion of non-traditional exports?
- v. Does the EPA contain adequate provisions on the procedures for the mutual recognition for professional service providers?
- vi. Is an across-the-board simplification of Rules of Origin of greatest benefit to CARIFORUM producers, or would they benefit more from flexible, case-by-case determination of Rules of Origin?
- vii. In the determination of Rules of Origin, has adequate attention been paid to the need to protect the authenticity of Caribbean products and brands?
- viii. To what extent do the terms of access to the EU market encourage CARIFORUM firms to move up the value chain?
- ix. To what extent does the EPA address specific issues related to accessing the markets of the DOMs and the OCTs which are in close proximity to the CARIFORUM countries?

x. The EPA must contain a Special Safeguard Mechanism to maintain local agriculture, protect small family farms and food security.

xi. To what extent does the EPA contain measures to improve CARIFORUM fisheries management in addition to increasing market access and stock exploitation?

xii. With respect to trade in services, the EPA must be assessed in terms of the extent to which it removes barriers to market access for CARIFORUM cultural industries in the EU.

### **Policy Space**

i. Gender equity assessments need to be incorporated into measuring the impact of fiscal reforms resulting from the EPA, their impact on domestic tax increases and consumer price increases, taking into account the prevalence of women heads of households in the CARIFORUM region.

ii. Does the EPA allow CARIFORUM governments the policy space to protect livelihoods and family farms, food security and rural community development in the agricultural sector?

iii. Will the EPA influence domestic and regional authorities towards more equitable distribution of the economic benefits that may result from trade liberalization?

iv. Do the EPA agreements on government procurement contain a development clause and thresholds that can be used to help stimulate competitive sectors?

v. Does the EPA section on competition policy contain the recognition that competition policy can be designed in ways to promote local businesses, diversification and sectoral development? Does it contain appropriate development escape clauses?

vi. Within the EPA, what measures are there to facilitate CARIFORUM countries' ability to use measures to attract particular types of investment intended to address specific development goals?

vii. To what extent does the EPA promote innovation and enhance CARIFORUM access to technology?

viii. To what extent does the EPA allow governments the policy space to protect the natural environment where FDI is concerned, especially in the area of tourism development?

- ix. To what extent does the EPA provide the space to protect artisanal fishing which is an increasingly important element in sustainable fisheries management?
- x. To what extent does the EPA allow for the development of trade-related disciplines that are in keeping with the experience of the region rather than primarily in keeping with the experience of the EU?
- xi. The EPA should not foreclose CARIFORUM governments' possibilities to provide initial protection for emerging areas of competitiveness, especially in services.
- xii. The EPA should not go beyond the TRIMS agreement in restricting CARIFORUM's right to control the type of investment that comes into the region.
- xiii. The agreement should contain provisions for safeguarding the public interest in crucial areas eg. public health.
- xiv. The agreement should not lead to the possibility of EU firms being able to sue CARIFORUM governments.
- xv. The EPA should not encourage the further privatization of essential services such as education, health, water and postal services.
- xvi. To what extent does the agreement maintain or close off the possibility for embracing flexibilities which may result from WTO revision of GATT (1994) Article XXIV?
- xvii. Will the EPA provisions serve to stimulate additional FDI into growth sectors in CARIFORUM economies and stimulate more joint ventures?
- xviii. Are CARIFORUM timelines for liberalization sufficiently tied to measures to strengthen competitiveness or are they weighted more heavily towards revenue-defence considerations?
- xix. Government procurement clauses should function to improve procurement practices in CARIFORUM countries but not be used to force access to the regional procurement market. If the procurement agreement is expanded to allow for market access, there must be an access threshold to protect CARIFORUM small companies and also facilitate their access to the EU market?

### **Regional Integration**

- i. To what extent does the EPA help to reduce the existing internal barriers among the CARICOM and the CARIFORUM countries?

- ii. To what extent does the EPA address the strengthening of regional air and sea transport which inhibits competitiveness and intra-regional production and trade?
- iii. To what extent can the EPA facilitate the establishment and strengthening of regional organizations to address common problems of market intelligence, standards, product development, packaging and other export concerns?
- iv. Will market access in the EPA be synchronized with the achievement of specific regional integration goals?
- v. To what extent will the EPA encourage regional solutions to the challenges of small production capacity of individual CARIFORUM countries?
- vi.. Does the EPA provide support for regional language training programmes that will facilitate the participation of civil society and private sector stakeholders in activities at the CARIFORUM level?
- vii. Is the regional integration model being promoted by the EPA one that is based on CARIFORUM realities or on EU criteria?
- viii. To what extent is the spread of benefits of intra-regional trade in services equitably distributed among CARIFORUM countries?
- ix. To what extent does the EPA create spaces to encourage national firms to achieve competitiveness in the regional market and foster the creation of regional firms?
- x. To what extent does the EPA strengthen the linkages between agriculture and tourism, and increases the region's capacity to source food from within the region?



## Chapter 8

### Applying benchmarks to EPA CARIFORUM/EU negotiations

Applying benchmarks to the EPA negotiating process while negotiations are ongoing is a difficult task, as it presents a moving target which is difficult to pin down. It is also difficult to focus on negotiating benchmarks without also establishing benchmarks by which the entire agreement is to be assessed. The mandate to assess the conduct of the negotiations implicitly suggests that specific negotiating positions adopted by both sides be also assessed. This is not possible as the EPA process has not attained the levels of transparency of the FTAA process, where, after repeated representation by civil society groups, the draft texts were made public and posted on the official FTAA websites for public scrutiny. The unavailability of current draft texts proposed by CARIFORUM and the EC, means that attempts to assess the negotiations using the benchmarks approach must, unavoidably, be restricted to the conduct of the negotiating process. The absence of publicly accessible drafts offers little scope for input from interest groups which could influence the shaping of the final agreement. Thus, benchmarks can only be applied to a final agreed upon document, which may not provide clear avenues for amending the agreement where it appears to fall short of development goals. As noted earlier, the success of the benchmarks approach is conditional upon the existence of a commitment to change and the provisions of clear mechanisms for achieving this. Given these limitations, the benchmarks will be applied only to the negotiating process itself. The short coming of this process is discussed earlier, so this concluding chapter will draw on the earlier discussion in making observations on the conduct of the negotiations.

The principal guidelines on which to assess the negotiating process as set out by the Cape Town Declaration and adopted by ICTSD/APRODEV, are transparency, inclusiveness, and the need to take account of asymmetry between the EU and ACP. The rest of the paper will attempt to assess the negotiations under these main headings.

#### Asymmetry

The main feature of the EU/ACP negotiations process is the vast asymmetry that exists between the two groups. Unlike earlier waves of economic integration initiatives which generally grouped like states with like, free trade agreements (FTAs) between developing and developed countries, reflecting great inequalities, are emerging as one of the features of the new wave of FTAs. In the case of EPA negotiations between the EU and ACP, these represent negotiations between unequal

partners. This inequality is reflected in differences in human and financial resources, capacity, size of economies, levels of development, access to information, and the greater coherence of the EU as a regional group with developed mechanisms for conducting external negotiations. The case is even clearer here, in light of the EU's role under the Lome Conventions as the ACP's main provider of duty-free market access and development support. There are thus obvious challenges in attempting to forge a relationship between these two groups, based on trade liberalization norms, while ensuring that the asymmetries that exist do not result in a vastly unequal agreement. In order to prevent this, the asymmetries in levels of development that characterize the EU and ACP must be taken into account if the agreement is to achieve relative balance between the two regions, especially if it is meant to serve development. In addition to taking account of asymmetries in levels of development, the participation of Caribbean and Pacific small states in these negotiations provides even greater impetus for care in crafting a balanced agreement.

The EU's continued role as donor gives it a privileged position in negotiations. The paradox the ACP confronts, and which is difficult to reconcile, is attempting to secure an equal agreement, the achievement of which is premised on the EU's role as provider of resources. EU support, particularly in the Caribbean, extends to financing CARIFORUM negotiators attendance at negotiating meetings, supporting the national and regional consultation processes, and funding studies to inform CARIFORUM's negotiating positions, among others. The EU's dominant role in affecting the outcome of the negotiations is not limited to the dynamics of the negotiating process itself, but is evident in the entire package of ACP/EU relations. The EU's internal reform of the CAP, which is occurring independently of the EPA process, has already changed the terms of ACP engagement. So, even before an agreement is reached between the EU and its respective ACP partners, CAP reform measures have already reduced the competitiveness of ACP sugar and rice producers. CAP reform also undermines the broad CPA commitment to maintaining the Lome Acquis and not making any ACP worse off than under the Lome Conventions. In other words, the EPA agreement is not the only factor in the equation.

Some benchmarks for addressing the extent to which these asymmetries are accounted for in the negotiating process have been suggested in the previous chapter and will be applied here. They focus on resource limitations, information asymmetries, and the realities of the regional integration process for CARIFORUM.

## Human resources

*Have the resource limitations of CARIFORUM been adequately addressed in the negotiations so as to mitigate their effects on the outcome of the negotiations?*

The EU has provided financial support to the RNM (CARIFORUM) to assist officials of member states to attend meetings and this has gone a long way towards addressing the problem of achieving greater representation of CARIFORUM officials at the technical levels of the negotiations. The interviews show, however, that this did not entirely address the problem as funding was usually limited to one official per country, with the governments apparently unable to find the resources to facilitate more widespread attendance. While the EU's assistance has been invaluable in strengthening this aspect of CARIFORUM's capacity to engage more effectively in the negotiations, it is unrealistic to believe that EU financial support would address this fundamental asymmetry between the two groups. Even if the EU were able and willing to fund the attendance of any CARIFORUM official who wanted to attend these meetings, this would not alter the fundamental differences in human resources that exist between the two regions.

*To what extent have the information asymmetries that exist between the two groups been addressed? Have the preparation and conduct of negotiations been informed by adequate data collection and sensitivity research on sectors and products in the various CARIFORUM countries?*

One of the features of small states is the weakness in data collection systems which increases the challenges of planning (Downes, 2005). The RNM has found this to be a severe limitation on its ability to negotiate effectively with the EU. Such weaknesses are particularly evident in services, where the quality of data is poor. There is also little data on existing sectors and even less on new or emerging sectors with potential for competitiveness. At the heart of this problem lies the weak data collection capacity of firms and other producers. This is a serious impediment to the region's ability to concretely identify sectors it would wish to develop and, as a consequence, weakens its ability to negotiate measures which would allow such sectors to emerge as competitive spheres of activity. In other words, it makes it difficult for the region to negotiate the necessary policy space which would ensure that these areas of potential future growth are not stifled. The RPTF was supposed to assist in reducing information asymmetries in the negotiations by funding studies which would provide such information. This would hardly affect the underlying structure of the data collection systems in place, which would be a longer term process, but would go a long way towards identifying the challenges and potential of maintaining existing sectors and

encouraging the development of nascent ones. The EU's commitment to funding the RPTF has fallen short, however, with insufficient funds coming on stream during the negotiations to fund such studies. Even if these studies were promptly and adequately funded, it still would have presented a challenge for the RNM as the negotiations were proceeding in the absence of any connection between the adequacy of data available and the time table for negotiations. Such asymmetries may have been mitigated by an adequately funded RPTF, but would have remained an important constraint.

*Has there been adequate inter-ministerial coordination in the formulation of national objectives, policies and negotiating strategies for the EPA?*

*Has there been adequate coordination at the regional level of CARIFORUM and CARICOM agencies in identifying objectives, policy formulation and development of negotiating strategies?*

The greater coherence of EU trade policy and negotiating structure, vis a vis the more disarticulated CARIFORUM group, has already been identified. CARIFORUM's successes in these negotiations depend to a large degree on its ability to compensate for this gap by coming up with negotiating positions that are fed from national processes and the ability of the grouping to present these in a way which recognizes the different interests and concerns of its various members, while presenting a coherent front. This depends in large measure on the efficiency of national systems and the ability of regional mechanisms to reconcile differences and present a coherent negotiating mandate for the RNM to pursue.

The earlier discussion of the national consultation processes points to weaknesses in the articulation of acceptable negotiating positions. At the level of government ministries and departments, where these benchmarks are focused, the interviews suggested serious shortcomings. Generally, the input of officials was limited to a few ministries, primarily trade and foreign affairs, and agriculture. The interviews pointed to weak inter-ministerial linkages at the national level, which inhibited the formulation of representative positions.

The same observation seems to hold true for CARICOM. The points of engagement between the CARICOM bureaucracy and the RNM appear to be limited to the engagement of a few individuals. What appears to be lacking is a systematic engagement of CARICOM in the shaping of RNM negotiating positions, which is essential to ensuring that the negotiations fully take

account of the requirements and dynamics of the regional integration process. This has to be distinguished from CARICOM as a political organization, where the Heads of Government, as described in chapter 6, meet to agree on negotiating positions to be carried forward by the RNM.

A measure of CARIFORUM's success in mitigating its more recent history in negotiating as a group is the extent to which the weaker members of the group are participating in negotiations and have their positions reflected in the negotiations. The RNM's position on market access, discussed above, would suggest that there are attempts to reconcile the OECS' concern with protecting their tax base and providing as much flexibility as possible for their firms to gain competitiveness, with the more aggressive interests of other CARIFORUM countries, particularly Trinidad and Tobago. Despite this, there are reports of limited OECS participation in negotiations and a general sense of the sub-region's disengagement from the process. It is not at all clear that an eventual agreement would be acceptable to the OECS.

#### Inclusiveness

One of main concerns of the Cape Town Declaration was that the negotiations are transparent and inclusive, providing opportunities for groups not directly involved in the negotiations to have some input. The benchmarks developed would have to measure the extent to which these are addressed.

*Has the preparatory period shown evidence of adequate or effective public information programmes addressing the potential external and internal implications of an EPA?*

This benchmark addresses the transparency of the process. The interviews suggest that the levels of information on EPA negotiations across the region were low. Most interviewees either knew nothing about the negotiations, or had a vague awareness that they were taking place, but without any clear idea of what the issues were. The interviewees who were more aware of the process were those who were either directly involved in helping to shape policy or those who participated in consultations. There is a clear need, even at this stage of the negotiations, for public information programmes as a point for generating debates around the possible implications of an EPA.

*Has there been adequate participation by all stakeholders, including the labour movements, environmental NGOs, consumer associations, the non-traditional export sectors and micro-enterprises in the consultations processes?*

The earlier discussion of the negotiating process pointed to widespread dissatisfaction with the inclusiveness of the negotiations. The interviews suggest that the engagement of a wide cross section of society representing various interests was not achieved. There was a clear sentiment expressed by a wide cross section of interviewees, including RNM negotiators and civil servants close to the negotiations, that not all interests were adequately represented in the negotiations. The private sector appeared to be the grouping most consistently engaged, but, even here, there was a widespread feeling, even among RNM negotiators, that the traditional sectors dominated at the expense of weaker emerging sectors. This was due to a number of factors: the weak position of new sectors whose actors were not yet consolidated to articulate interests, and whose energies were focused on establishing their business; capacity constraints, particularly in respect of human resources, which were common to all private sector groups but were particularly acute for new enterprises, which limited the time and energy they were able to spend on trade issues; and the longer history of traditional sectors in negotiations, especially during the CPA and FTAA negotiations, where they were forced to define and defend their interests, and which made them more familiar to key players in government and the RNM. Outside of the private sector, the problem was amplified.

*Have the formation of trade policy and the development of a regional negotiations strategy been informed by effective systems of national consultations?*

The weaknesses identified suggest that the system of national consultations was weak, which undermined the goal of achieving negotiation strategies that were informed by the interests of a wide cross section of society. RNM interviewees felt that the pool of representatives at these consultations was small. The consultation process appeared unsatisfactory both from the perspective of those who did participate at some point in consultations around the EPA negotiations and from those who were not aware of the negotiations at all or had limited awareness. The interviews suggested a number of reasons why the process was less than satisfactory. For those who participated at some level in consultations, the structure of the negotiating process appeared to be part of the problem. The nature of negotiating processes, which are usually conducted with some degree of confidentiality and absence of public scrutiny, does not easily facilitate the dissemination of information which would be a necessary condition for groups to exert meaningful influence in shaping negotiating positions. In the Caribbean context, it appeared that only a narrow group of government officials, directly involved in policy formulation, and a thin stratum of the private sector, were given access to shape negotiating

positions. Even in a successful process of widespread consultation, governments and negotiators would be central in translating possibly widely diverging perspectives into a negotiating position. There is thus no guarantee that negotiating briefs actually reflect the outcome of the participation, especially in adequately representing the offensive and defensive interests identified, given governments' role in making the final decision on strategy.

*Has the structure, organisation and scheduling of negotiations facilitated the full representation and participation of all CARIFORUM?*

*Did the negotiations take account of resource and institutional capacity limitations of ACP?*

The rigid timeline of the negotiations, which was predetermined, also undermined the scope for inclusiveness. Even those groups that were offered some opportunity to influence the process were dissatisfied with their ability to be effective, with the limited time frame within which they were expected to formulate positions. This was also aggravated by the capacity constraints within ministries and the private sector, particularly in terms of human resources, which inhibited their ability to respond quickly. The paucity of data, which characterizes many small states, also restricted the ability of such groups to respond in concrete terms to meet the requirements of the negotiations. There is difficulty in arriving at negotiating positions as a result of insufficient information to inform positions and inadequate data collection. Thus, the RNM is negotiating with imperfect information, although this situation has improved somewhat. The weak capacity of newer and weaker interests, particularly in services, underscores the problems of asymmetry identified earlier. The consultation process is meant to inform governments but cannot be the primary basis upon which governments base their negotiating strategy. This must primarily be based on research on emerging sectors and their potential for growth and sustainability, and the supports they will need for this. The governments' reliance on interest groups being able to articulate their interests, points to a serious weakness in negotiating strategy, arising from weak institutions, weak information collection and data gathering systems, and the weakness of non-traditional sectors who do not constitute identifiable, self-aware interest groups in a position to influence negotiating positions.

*Have the negotiations been structured to clearly identify and systematically address the issues of major concern to the ACP with realistic and clearly defined time frames?*

The clear asymmetries that have been identified, particularly in light of the weak capacities that exist, particularly in articulating effective negotiating positions, raise the question of to what extent has the negotiating process been structured to address these asymmetries. Constraints to the region's ability to present a representative and effective negotiating front do not appear to have been specifically addressed in the scheduling of the negotiations, as the negotiators have not deviated from the strict negotiating timelines set for the conclusion of negotiations. It remains to be seen whether the content of the agreement reflects any attempt to compensate for these shortcomings in concrete terms.

### Conclusions

It is unrealistic to expect the vast asymmetries that exist between the CARIFORUM and EU regions to be sufficiently addressed so as to ensure an equitable outcome from the negotiation process. Even more unrealistic is the expectation that attempts to address these, while the negotiations are ongoing, would contribute in any significant way towards reducing these asymmetries and to the outcome of the negotiations. In any event major shortcomings were identified in the attempts to overcome these asymmetries on the part of both groupings. While the EU has to take responsibility for not fully living up to its commitment to providing support to address the problem of information asymmetries that exist in CARIFORUM, particularly in respect of the requirement of specific sectors, the CARIFORUM group must take full responsibility for the weaknesses in national engagement processes, which ultimately undermine the representativeness and effectiveness of its negotiating positions. It is difficult to compensate for these flaws after an agreement is put in place. It remains to be seen whether, despite these shortcomings, the agreement make provisions for addressing these. As already stated, this would only be ensured by the inclusion of flexibility mechanisms which would allow for some revision of the agreement.

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## Annex A

### Dominica case study

#### Introduction

Dominica provides an important case study for analyzing the challenges that are posed for the crafting of a development-friendly EPA, and for suggesting how benchmarks could be used to ensure that they derive some benefit from an EPA with the EU. It is one of the world's smallest and most vulnerable countries and, along with other banana producing countries of the OECS, has seen a dramatic restructuring of its economy arising from the various revisions of the EU's banana importing regime, particularly in response to the WTO rulings in the Banana Case. This case study looks at the effects this has had on its economy and people and some of the challenges it faces in addressing the competitiveness of its productive sectors.

Dominica is one of the smallest countries in the world, both in terms of physical size -- 750 km<sup>2</sup>, of which only 150km<sup>2</sup> is arable -- and population -- around 70,000. The country is a middle income country of medium human development, ranked 68 on the UNDP human development index, with a per capita GDP of around US\$3,794 (UNDP 2006). It has already achieved a majority of the MDGs, especially as they relate to adult literacy, student enrolment, life expectancy at birth and per capita GDP (EU/GORP, 2004). Despite these achievements, however, there remain significant problems in human development, including adult literacy, which stands at 76.4%, inadequate enrolment rates at primary, secondary and tertiary levels of 65%; a sharp decline in gross enrolment rates at the pre-primary levels from 82% in 1997/1998 to 68% in 2001/2002<sup>66</sup> (EU/GORP, 2004: 7). The EU (ibid: 7) surmises that these may have worsened as a result of the economic crisis which the country experienced after the sharp and steady decline in the banana industry<sup>67</sup>. Dominica is also grappling with high poverty levels, with 39% of its population considered poor and 15% indigent, with unemployment, which is already high at 25%, reaching 40% among the poor (ibid). Poverty is also concentrated in the rural areas and is particularly high among the indigenous Carib communities. As the EU/GORP report notes, these have negative implications for crime and social stability (ibid). Dominica also ranks high on both the United Nation's Economic Vulnerability and the Commonwealth Secretariat's

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<sup>66</sup> The EU/GOCD (2004: 7) cited a World Bank survey which indicated that this sharp drop can be attributed to the decision of parents to keep their children at home in response to the economic constraints they were experiencing arising from the crisis in the Dominican economy.

<sup>67</sup> Dominica's growth rate for banana production fell by 40% in 2002/2003. Source: FAO, 2005, 'Banana Information note 2005'. (Rome: FAO Sub-Group on Bananas)

Commonwealth Vulnerability index for 2000, 18 and 6, respectively (Horscroft, 2006: 42), which has implications for the consistency of its economic performance.

Dominica exhibits high levels of openness to trade and a reliance on a narrow range of export goods, which are usually identified as features of small states, which increase their economic vulnerability to exogenous shocks. Commonwealth Secretariat (2006, table 18, 101) figures show 15 commodities exported in 1990, and almost the same number, 16, in 2002. Dominica's diversification index has not changed much, 0.631 in 1990 and 0.637 in 2002. Its concentration index was 0.640 in 1990 and 0.428 in 2002. Dominica's economic fragility is mirrored in its high vulnerability to environmental and economic factors. An EU/Government of Dominica (2004: 4) report noted that the effects of the decline in banana production were compounded by severe weather conditions – droughts and hurricanes<sup>68</sup> – September 11 events in the US, and the global economic slowdown. It argued that Government's response, which included sharp increases in commercial borrowing to compensate for the deterioration in public finances, 'delayed fiscal adjustment to the secular decline in growth, combined with a lack of expenditure control and a sharp increase in commercial borrowing', aggravated the crisis (ibid: 4). Consequently, Dominica is now one of the most debt ridden country in the world, with a debt of US\$250.2m in 2004 (Com Sec, 2006 p. 15), representing 112% of GDP

### **Economy**

Dominica's economy has been dominated by the agricultural sector, particularly export agriculture, namely bananas, thus its economic performance was reflected in the fortunes of the industry. In the 1990s Dominica experienced a dramatic decline in the banana industry arising from the liberalization of the EU banana trade. This was manifested in a drastic reduction of farmers, acreage and earnings. At the beginning of 1990 Dominica had 6,667 active farmers; by 2005, this had fallen to 880. Acreage under banana cultivation fell from 8,900 in 1996 to 2,404 in 2005. Banana exports fell from 61,197 tonnes in 1987 to 10,859 tonnes in 2005, resulting in a fall in earnings from EC\$86,433,000 to EC\$17,813, respectively<sup>69</sup>. This decline in banana production mirrors the decline in agriculture's share of the GDP, which fell from 24% of GDP in 1987 (rising to 26% in 1990) to 19% by 2003 (Com sec 2006, p. 75, table 5). Industry and

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<sup>68</sup> Dominica is also vulnerable to earthquakes, experiencing a Scale 6 earthquake, in November 2004, which caused damage to infrastructure and agriculture estimated at US\$30m.

<sup>69</sup> The EU/GOCD (2004: 7) shows a more drastic decline in earnings than the source quoted above.

services now contribute more to GDP, 21% and 60%, respectively, in 2002<sup>70</sup> (Commonwealth Secretariat, 2005: 75, table 5). At the heart of the industry's decline is its lack of competitiveness, which, in large part, is a consequence of its farm structure, which is based on small family farms, concentrated in one-five acreage category, and the country's hilly topography and limited arable land, which inhibit the use of labour enhancing and productivity raising technologies. Nevertheless, the industry, which has dominated the economic life of the country, has been credited with improving the livelihoods of rural populations and contributing to favourable levels of equity.

The crisis in the banana industry is also reflected in the dramatic decline in the growth rate of goods exports, which fell from 16.1% in 1985-90 period, to -4.4% between 1990 – 2003 (Commonwealth Secretariat, 2006, table 9, p. 83), as well as in the banana industry's drastic decline in the share of export value, falling from 57.2% in 1990 to 1.8% in 2003 (Commonwealth Secretariat, 2006: tables 9 and 17, p. 83, 99). Dominica's GDP performance also tells the story of the industry's decline, moving from an average of 11% growth between 1985-1990, falling to 3%, between 1990-2003 (Commonwealth Secretariat, 2006: 12).

In response to the economic crisis, partly arising from the shocks to the banana industry, the IMF introduced a three-year structural adjustment programme in 2003, coined Poverty Reduction and Growth Facility arrangement, which made US\$7.7 available to Dominica under the IMF's special drawing rights (IMF, 2007). The main elements of the programme were increasing tax collection to compensate for the reduction in government revenues, arising from both greater liberalization under the WTO and a decline in earnings from the banana industry; measures to effect tighter control of expenditure; civil service reforms; pension reform; and tax policy (EU/Government of Dominica, 2004: 5). At its 2006 review of Dominica's performance under its adjustment programme, the IMF appeared pleased with the outcome. The Dominican economy had begun registering growth in 2004 and 2005, which was expected to reach 4% in 2006 (IMF, 2006; 4). The government had achieved macro economic stability which had come about through fiscal

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<sup>70</sup> Average annual rate of growth for agriculture between 1985-1990 was 4.1%, falling to 2.8% in the 1990-2003 period; industry grew at 6.5% per annum between 1985-90, falling, though less sharply to 5.4% in the 1990-2003 period; manufacturing grew at an annual average of 6.1% between 1985-90, no figures are presented for the 1990-2003 period (Com Sec, 2006, table 6: 77).

adjustment. The major economic sectors, including the banana and tourist industries were showing improvement, although the performance of the non-agricultural sector was mixed and manufacturing had exhibited weakness (ibid). The IMF had been instrumental in renegotiating 78.5% of Dominica's debt (ibid: 7).

Coupled with the IMF package was the government's implementation of a Growth and Social Protection Strategy (GSPS), which had as its primary objective improving growth and employment as the main vehicle for reducing poverty (ibid). Central to this strategy was creating an 'enabling' environment for investment by addressing structural and institutional inhibitions to investment and growth. These included improving infrastructure, reducing government's role in identifying and targeting 'desirable' investment by removing concessions, streamlining investment processes, and establishing 'a smaller and more efficient public sector' (ibid: 7). Thus the government's GSPS was closely aligned to the IMF's structural adjustment programme. The government's favourable performance under structural adjustment was achieved, however, at the cost of increased hardship on the Dominican people, with a reduction in jobs which lowered the wage bill to 13.3% of GDP in the 2005/06 financial year, from 16.6% the previous financial year -- Government was committed to further reducing this to 12.5% by 2008/09 (ibid: 9) -- and the widening of the tax base with the introduction of VAT. These measures increased government's fiscal intake compensating for the fall in banana revenues; and the restructuring of the Social Security Scheme in the direction of increased contributions, reduced benefits, while raising the retirement age, *inter alia* (ibid: 11). The government's commitment to raising its revenues by increasing the numbers of people paying taxes, irregardless of earnings, cutting government jobs and outsourcing services, and by reducing protection under the Social Security Scheme appears to be in conflict with its aim of reducing poverty by addressing employment, at least in the short run.

### **Dominica/EU Relations**

The European Union was an important source of financial support and a major market for imports and exports for Dominica, but the latter have shown decline. Dominica's exports to the EU fell from 50% in 1985 (of 56.2% to industrial countries) to 23.1% (32% to industrial countries) in 1990<sup>71</sup> (Commonwealth Secretariat, 2006: Table 16, p. 97 ).

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<sup>71</sup> The high point of Dominica's exports to industrial countries was 1990, when it reached 68%, 56.4% representing the EU market (Commonwealth Secretariat, 2006: table 12, table 13, pp. 89, 91).

(CARICOM) shows the opposite trend, moving from 43.8% in 1985 (falling to a low point of 32% in 1990) to 61.4% in 2003 (Commonwealth Secretariat, table 12, table 13, pp. 89, 91). The main sources of imports, the EU and US, both show decline, with imports from the EU falling from 22.9% in 1990 to 13.2% in 2003, and from the US over the same period, moving from 35.6% to 21.5% (Commonwealth Secretariat, 2006: Table 16, p. 97) . Thus the US is a more important market for imports than is the EU, which is understandable, given its greater proximity to the region.

A look at the figures above for Dominica's external trade shows a decline in the importance of the EU market. This is largely attributable to the performance of the banana industry, and illustrates clearly the limited success the country has had in effectively accessing the protected EU market for other products. This has been one of the strongest arguments against preferences, the inability of ACP countries to increase market share even in situations of protected markets. And, in the context of the decline in the banana industry, there is clearly an inability to compensate for this with an increase in the export of other goods.

Interviews with major elements of the Dominican private sector point to a range of factors which negatively affect their competitiveness, and thus ability to access the EU market. At the local end, these included the high cost of energy, low levels of technology usage, especially the availability of scientific and research institutions, the adequacy of sea and air transport which inhibits trade to all markets, both regional and extra-regional, high labour costs, low levels of tertiary education and skilled persons, in generally, compounded by a high out migration of skills, and rugged terrain. Air transport poses sharp limitations. The Melville Hall airport, Dominica's larger airport, lacks electronic landing instruments, which means that pilots can only land if they are able to see the airport. Given Dominica's mountainous terrain and weather patterns, the airport is sometimes closed to traffic<sup>72</sup>. The EU's support of E11,950,000 to improve the airport does not address the problem of international and round the clock access, as it is limited to runway improvements and the provision of ground lighting (EU/Government of Dominica, 2004: 11), so this is likely to remain a major factor inhibiting Dominica's competitiveness. The high cost of electricity is being addressed by the IMF's prescription for the deregulation of the energy sector to pave the way for

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<sup>72</sup> In preparation for this paper, I traveled to Dominica. The plane on which I traveled was forced to overfly the country twice, because the airport was encased in a thick bank of clouds, and was able to land only on the third attempt. This meant that instead of my interview schedule beginning at 9 a.m. it began at 4 p.m., instead, which meant losing some of the interviews.

the exploitation of geo-thermal energy potential. The out migration of skills was widely cited as a major constraint on Dominica's competitiveness. Dominica numbers among the top 15 countries in the world with the highest migration rate (Mishra, 2006: Table 6), the corollary of which is that it was the third largest beneficiary of remittances in CARIFORUM for the 1980-2002 period (ibid: 19), a region which tops the world in remittance receipts. The bulk of Dominica's educated are headed for OECD countries, with migration of the work force educated at the secondary and tertiary levels representing 67% and 64%, respectively, as opposed to 19% of the workforce with only primary education (ibid: 16, 17, table 6). Even given the high levels of remittances which, by Mishra's calculation amount to 8.4% of GDP, as opposed to an estimated loss of between 1.7% and 2.3% of GDP, Dominica is feeling the loss of its skills necessary to dynamise the economy.

Constraints in accessing the EU markets include the small volume of products which is a feature of the tiny local enterprises that exist, the challenges of establishing distribution lines, the difficulty of gaining adequate information of the character of what is a diverse European market, given limited resources, and the challenges that stringent European SPS standards pose. The latter appears to be one of the major constraints these micro firms face in accessing the European market. It takes on even more importance in Dominica's bid to diversify its economy based on potential growth areas. These include the herbal industry which has tremendous potential given the still pristine character of Dominica's rain forests, and the extraction of essential oils and spices. Currently, Dominica is the world's major supplier of bay oil, which is derived from the leaves of the bay plant. The UK is the major market for this product. The challenges this firm has had in maintaining market share in the face of negative scientific reports on certain elements in the bay leaf, and its inability to counter these with its own research findings, suggest some of the challenges. At an even more mundane level, the constant shifting of requirements set by the EU to meet ever moving standards, increases costs and uncertainty to small firms which are trading on the margins. The challenge for Dominica, which any development-oriented agreement must take into account, is the exploitation of these resources in an ecologically sustainable way to feed into the pharmaceutical industry, the indigenous medicine industry and medi-tourism, inter alia. As importantly, however, is to ensure that this development does not marginalize Dominicans from being at the forefront of this process by crowding out local initiatives. This would suggest an approach which actively promotes joint ventures, development support to address issues of production volumes and SPS standards, greater protection of Dominica's intellectual property in respect of indigenous herbs and species through a creative application of TRIPs, inter alia. It also suggests the need for a stronger regulatory environment which goes beyond current IMF

measures to enhance investment and protect the investor, to ensure that Dominica is able to take full advantage of its intellectual property. Stronger regulation is also needed to ensure that Dominican's are not marginalized from the further development of its tourism industry. In all of this, strong and carefully monitored regulations directed at protecting Dominica's fragile ecosystem are necessary to ensure that 'development' does not destroy the very basis upon which it is premised. The challenges of adequate transportation services remain a constraint, which must be addressed.

The challenge of small producers accessing the EU market can be addressed by greater attention being paid to the importance of the DOM/OCT market for Dominica's products, particularly in respect of easing restrictions there. That market is important for Dominican small traders, including hucksters, who do a thriving trade in produce, herb producers, small craftsmen and women who supply boutiques, and others. Interestingly, this market is a preferred market for Dominican traders, both in respect of CARICOM and Europe; tariffs are generally low and predictable<sup>73</sup> and transportation more reliable. Unfortunately, for Dominicans, access to this market is on the same stringent terms as access to the European mainland. Barriers include entry requirements which stipulate evidence of insurance coverage, evidence of hotel accommodation, visa requirements<sup>74</sup> and the same high SPS standards as for the EU mainland. Given the easier accessibility of the DOMS/OCT market, despite these challenges, EPA negotiations should play more explicit attention to this market which, though not currently important to most CARIFORUM countries, is nevertheless of importance to the OECS. These negotiations should provide a space, which currently does not exist, for direct talks between the OECS and DOMS/OCT dependents in the Caribbean to ensure that the EPA speaks specifically to these interests. This means the EU relaxing its current position that the Commission is the body authorized to negotiate on behalf of all its member states, and recognize the geographical and cultural reality of the connectedness of these territories within the Caribbean space. In so doing, the EU could play a revolutionary role in helping to integrate these territories within the region, and in so doing mitigating some of the divisions which European colonialism has imposed on the region.

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<sup>73</sup> Interviewees speak of a wide range of tariffs and other barriers across CARICOM which increase the cost of doing business in the regional market, and consequently inhibits intra-regional trade. **The WB** speaks to the existence of unauthorised tariffs across CARICOM, particularly in the OECS.

<sup>74</sup> Information to suggest that an agreement may have been arrived at mid 2006 to relax visa requirements in Guadeloupe for St. Lucia. Need to check.

Despite the apparent decline of the EU market for Dominica, therefore, there is potential for increased trade with EU non-independent territories in the region in their own right, but also as an easier access point to the continental market, which could potential ease some of the transportation weaknesses which constrains access to the European market. In addition, the remains an important source of development support. The EU's response to Dominica's economic crisis was to increase its aid commitment to E51.21 million in 2004, under STABEX, EDF and Special Framework Assistance (SFA) (EU/Government of Dominica, 2004: 10). EU monies were used to assist the restructuring of the banana industry, which included putting in place irrigation, drainage and other infra-structure on farms considered to have the potential to become competitive; to address infra-structure to enhance diversification efforts, such as roads and the upgrade of the Melville Hall airport; to strengthen tourism, including diversification into eco-tourism, *inter alia* (ibid: 10-12). Under the SFA, which was introduced in 1999, the EU has provided complementary financing towards the establishment of social safety nets, which included Social Investment Funds, to cushion farmers driven out of the banana industry (ibid: 13). The effectiveness of EU support, however, is marred by its poor disbursement record<sup>75</sup>, with only E6.33million of the total commitment for 2004, disbursed. The EU's stringent conditions for accessing funds are a source of concern among all groups in Dominica, the government, private sector and NGOs, which has led to a general sense of disillusionment and skepticism as to the EU's commitment to Dominica's development<sup>76</sup>.

### **Conclusion**

To conclude, given the EU's declining significance as a market for Dominica's imports and exports, the continuing challenge of adequate transport to access these markets and the small supplies of produce, which make that market a less viable option than the North American market, which has grown at the expense of the EU, two approaches are being suggested. The first is to strengthen trading and cooperation ties between CARIFORUM and the DOMS/OCTS, even while addressing barriers to accessing the EU mainland; the second is to seek to use EU financing

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<sup>75</sup> This problem is not unique to Dominica. For a discussion of the EU's poor record of disbursement of EDF funds, see Oxfam briefing note, 'Unequal Partners', table 3, p. 10. Source, Grynberg and Clarke (2006), 'The European Development Fund and Economic partnership Agreements', Commonwealth Secretariat, Econ Affairs, Div.  
[http://ec.europa.eu/comm/development/body/cotonou/statistics/statll\\_en.htm](http://ec.europa.eu/comm/development/body/cotonou/statistics/statll_en.htm).

<sup>76</sup> The source of this observation is the interviews conducted in Dominica in December, 2006, for this paper, where disgust with the challenges involved in accessing EU assistance was expressed by most of those interviewed.

to address the constraints to competitiveness and to move Dominican production, across all sectors, services, manufacturing and agriculture upwards along the value chain, regardless of the market for which exports are being targeted. In other words, EU development assistance would not be geared at enabling Dominica to penetrate the EU market, but towards making it internationally competitive to enter the markets that make most sense, whether as a result of geographical proximity or demand. Development benchmarks for Dominican/EU relations should thus be based on the following markers:

- The extent to which the EPA enhances market access, from access on paper to effective access, in order to ensure that the benefits of the agreement are not one-sided in favour of European firms
- the extent to which measures are in place to maintain the survival of small-scale Dominican firms in a situation of liberalization. One approach to this is the active promotion, through incentives, of joint ventures between European and Dominican firms
- the extent to which there exist measures to enhance Dominica's ability to meet SPS requirements
- the extent to which the EPA specifically address and facilitates Dominica/DOMS/OCTS trade
- the extent to which the EPA incorporates specific measure that are designed to move Dominican production upstream to increase the value of its assets
- in light of the thrust to restructure Dominica's economy to offset some of the negative effects of the declining banana trade, special care should be taken to ensure that further liberalization under an EPA does not raise unemployment and poverty, and lower the standard of living for Dominicans, nor lead to the marginalisation of women and young people.
- That an EPA addresses the problems of migration, which is central to the paucity of skills which inhibits Dominica's competitiveness.
- That an EPA does not compromise Dominica's environmental integrity

## Guyana Case Study

### Introduction

Guyana is one of two CARICOM countries that are part of the South American mainland<sup>77</sup>. It represents an interesting case for comparison with other CARIFORUM countries for a number of reasons: it is considered to be a small country based on population, which at 769,000 places it within the classification of the Commonwealth/World Bank parameters of 1.5 million, but occupies a large land space, 214,970 km<sup>2</sup>. This gives it a larger resource base than the small island states of the region. Guyana thus has reserves of bauxite and gold, large acreage of forest and fertile agricultural land. Despite this, Guyana has experienced poor economic performance, reflected in its low ranking of 103 on the UNDP's 2006 HDI index, one of the lowest per capita incomes in the region, US\$1047 in 2004, and its characterization as an HIPIC country. It has one of the highest debt to GDP ratios in the region, 179% in 2003. Poverty levels are high and, despite significant reductions in poverty from 43% to 35% between 1992 and 2000 (IMF, 2005: 2), the proportion of people living below US\$1.40 a day was 32.2% in 2004<sup>78</sup> (EC- Guyana review, 2005: 6). Poverty is of particular concern in respect of Amerindian communities, where the largest pockets of poverty are found<sup>79</sup> (EC- Guyana review, 2005: 14).

Though not an island, Guyana is faced with serious environmental challenges. The majority of Guyana's population (70%) lives along a narrow strip of coast that is under sea level (PRSP, 2002: 10) and is protected by a system of sea defences. Guyana's economic woes have led, over the years, to a reduction in maintenance of infra-structure, particularly its sea defences. This has increased Guyana's susceptibility to flooding. Between December 2005 and February 2006, Guyana experienced flooding which affected 20% of its population, and caused damage estimated at 60% of GDP (IMF, 2005:

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<sup>77</sup> The other is Suriname. Belize is part of the Central American mainland.

<sup>78</sup> In 1992, 43% of the population was found to be living below the poverty line.

<sup>79</sup> For an in depth study on Guyana's Amerindian communities and the challenges they face, see Jorg Vereecke, 1994, 'National Report on Indigenous People and Development', UNDP Country Report: Guyana. Many of these problems persist. For the Guyana governments perceptions of the challenges facing these communities and its initiatives for addressing these see, 'Government of Guyana's Focus on Amerindian Development', 2004, [www.gina.gov.gy/gina\\_pub/amerindian\\_booklet.pdf](http://www.gina.gov.gy/gina_pub/amerindian_booklet.pdf).

2). Guyana is thus particularly susceptible to rising sea levels, resulting from climate change, threatening the very viability of these areas (EC- Guyana review, 2005: 15). Guyana is ranked fairly high on both the UNEVI and CVI, 34% and 17%, respectively (See table 2).

Guyana shares in common with other CARICOM small states its openness to trade, dependence on trade preferences and thus susceptibility to their erosion, declining competitiveness in its main spheres of economic activities, and vulnerability to environmental changes. Challenges to Guyana's development include political instability and high levels of crime. Guyana, as with Dominica, has clearly defined Amerindian communities which are often on the margins of development strategies. Nevertheless, Guyana's rich land mass gives it a potential for economic up turn which is not as evident in many of the region's small states. This case study explores further these differences, the challenges and opportunities to Guyana's development and the implications of an EPA for its development.

### **Guyana's Economy and the EU**

Guyana's economy has been undergoing restructuring since the 1990s<sup>80</sup>, based on the privatization of public enterprises, the stabilization of the weak Guyana dollar, and a shoring up of the main economic sectors. Nevertheless, Guyana's economic prospects have been affected by a number of factors, resulting in low and even negative economic growth. After enjoying a period of high growth (7%) between 1991 and 1996 (DaCosta, 2007), the early phase of the restructuring exercise, the economy slowed. Between 1998 and 2002 growth averaged 0.7%, contracted by -0.6% in 2003, and rebounded to 1.6% in 2004 (EC-Guyana review, 2005: 8), but declined by 2% in 2005 (IMF, 2007). In 2006 the economy strengthened with growth rising to nearly 5% (ibid). Growth projections for 2007 were an optimistic 4.6%, based on expanded sugar and rice output and a strengthening of the mining sector (Budget, 2007). Agricultural production, with services,

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<sup>80</sup> The Economic Recovery Programme (ERP) which provided the framework for restructuring was initiated in 1988 by the People's National Congress (PNC) government, following Forbes Burnham's death, and was continued by the People Progressive Party (PPP) after it won elections in 1992. See DaCosta, 2007)

dominates the economy, contributing just over 30% of GDP<sup>81</sup> (UNDP, 2006; GUYSUCO). Guyana's main exports are gold and sugar, accounting, in 2003, for 27 and 24% of total exports, respectively, followed by shrimp (10%), rice (9.1%), and timber and bauxite (7.1% each)<sup>82</sup>. Non-traditional exports account for 15% of exports (EC-Guyana Review, 2005: 9). Guyana also has a large informal sector, which is estimated to account for up to 40% of GDP (ibid: 8).

Since independence, the government has been at the centre of economic life, controlling most of the country's productive activities<sup>83</sup>. Restructuring exercises, since the 1990s, conducted under the watchful gaze of the IMF have been directed at government retreat and the privatisation of the main sectors of the economy. This has been executed for most sectors, except sugar. Despite the government's development strategy, which is based on promoting the private sector as the engine of economic growth and reducing government's role in the economy to one of providing infra-structure and addressing social needs, total public capital expenditure was estimated at 25.5% of GDP in 2006 and 23% of GDP on social expenditure (IMF, 2007).

Guyana's declining economic performance<sup>83</sup> can be attributed to the fortunes of its main exports, particularly sugar, rice, gold and bauxite, arising from a combination of declining preferences and unfavourable terms of trade, and social instability and crime. Between 1999 and 2002 Guyana experienced a 10% deterioration in the external terms of trade (EC-Guyana Review, 2005: 8).

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<sup>81</sup> Services contributed 37%, mining, 15%, manufacturing 10% and construction 5%. See GINA, N.D, 'Guyana: Key Economic Sectors'. [www.gina.gov.gy/photo/July24.2.jpg](http://www.gina.gov.gy/photo/July24.2.jpg). Accessed 11 July 2007.

<sup>82</sup> In the absence of more recent data these figures should be treated with caution as these might have changed as the varied performance of sectors and sub sectors described in the 2007 budget suggests.

<sup>83</sup> The PNC government, led by Forbes Burnham, pursued what they characterised as 'cooperative socialism', the features of which were state control of the main sectors of the economy – bauxite, sugar and manufacturing (See DaCosta, 2007). This, especially in the context of the Cold War, oil shocks, and failing prices for commodities, proved unsustainable, leading to crisis in the economy. The government's strong hold on the political process weakened political institutions and civil society. The government resorted to the IMF in 1979/1980, but its borrowing rights were suspended in 1985, and reinstated in 1990 (DaCosta, 2007). Economic crisis and the long political reign of the PNC – 26 years – contributed to high levels of migration, particularly of the skilled and social instability, which persists, fuelled by distrust between the PNC and PPP, which are organised largely along racial lines.

Production in the mining and quarrying sector – bauxite, gold, diamonds – fell by 22.4% in 2006 (budget, 2007). Guyana's bauxite industry has been on the decline, suffering, in part, from a cyclical decline in bauxite prices on the international market. Production declined by 9.2%, although this was offset by higher prices on the international market. The government has sought to address some of the industry's challenges by embarking on a privatization programme. Government is supporting the private sector's initiative to shift the industry from the export of bauxite to the production of alumina (budget, 2007). Bauxite's decline has resulted in increased unemployment and social instability (EC-Guyana Review, 2005: 27). Gold production fell in 2006 in response to the closure of Omai Mines, although earnings increased because of higher prices on the market. The government hopes to expand this sector and already a number of companies are engaged in explorations (ibid). The government hopes to diversify its mining activities with explorations for iron ore, manganese and uranium already under way. Oil explorations are expected to begin in the second half of 2007 (Budget, 2007). Explorations for natural gas are already being conducted (ibid).

The main markets for Guyanese exports in 2002 were the US, 22.5%, Canada, 20.8%, the UK, 13.7%, Netherlands Antilles, 18.9% and Trinidad and Tobago, 14.2 % (EC- Guyana Review, 2005: 9). The EU market, while not absorbing the largest volume of goods from Guyana, is extremely important to Guyana's economy. Guyana has been very dependent on preferences to the EU market for rice and sugar, its main agricultural exports, which have tremendous bearing on the fortunes of its economy.

Rice plays an important role in Guyana's economy as a contributor to export earnings (12%) and employment (12,000 farmers directly and 150,000 people indirectly) (Agritrade, 2007). After experiencing high growth in the period 1991-1996, growth slowed after the EU introduced safeguard measures directed at Guyana's export to the OCT, which was re-exported to the EU (ibid). This, coupled with EU reform of its rice importation regime, saw a halving of the price Guyana received for its rice. This has resulted in a significant reduction of land under rice cultivation (by 22%) and in export

earnings, falling some 24% between 2001 and 2004 (ibid). Regional rice producers received some support for restructuring the industry, but wanted EU compensation. This development has forced the restructuring of Guyana's rice industry towards a shift to CARICOM (finished rice), Brazil and Colombia (paddy rice), and to considering increasing the value-added of rice with the production of packaged and parboiled rice (Seepersad, 2006). This represents a positive move towards diversification, both of markets and product line. Increased prices for rice recently, which saw receipts growing by 18.2%, partly as a result of increased yields (budget, 2007) provide ground for optimism.

Sugar has suffered more recently from changes in the EU's sugar regime, arising from adjustments to the CAP, which sees a phased reduction in prices, by 36% over a four year period from 2005. These changes were partly in response to a challenge to the high levels of export subsidies that the EU gives to the sector, brought before the WTO by Brazil, Thailand and Australia in 2004. This situation has already had significant impact on the sugar industry in other CARICOM countries, with both St. Kitts/Nevis and Trinidad withdrawing from the industry. Jamaica has also experienced a significant cut back in the industry, and is currently exploring possibilities, with Brazil, for diversifying into ethanol production. Guyana sells most of its sugar (80%) to the EU under the ACP/EU Sugar Protocol<sup>84</sup> and the Special Preferential Sugar (SPS) agreement<sup>85</sup>, 70% and 10%, respectively (GuySuCo). CARICOM is its next largest market, accounting for 15%; the remaining 5% goes to the US under its Tariff Rate Quota System established for the importation of sugar (ibid). Sugar is not currently part of the EPA negotiations as this is being treated as an all ACP concern, given the legal character of the Sugar Protocol (Surujbally, 2006).

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<sup>84</sup> The ACP/EU Sugar Protocol dates back to 1975, and is a legally binding agreement that is based on ACP commitment to supply specified quantities of sugar to the EU at guaranteed prices.

<sup>85</sup> This agreement was introduced in 1995 to meet additional EU needs for raw sugar for its refiners. It is also based on ACP supply of raw sugar to the EU, but at prices lower (about 85%) than guaranteed under the Sugar Protocol, and for limited duration. See GuySuCo.

Guyana's response to these developments has been different from other CARICOM countries, however, with the government increasing, rather than reducing, investment in the sector. This is being done with a view to its modernization and increased competitiveness, in order to enhance its chances of survival in a more liberalised market. Competition is to be achieved, as well, by expanding production while lowering production costs and diversification within the industry into the energy sector such as cogeneration and the production of bio ethanol (budget, 2007). The industry will continue to sustain the rum industry (ibid).

The Guyana Sugar Corporation (GuySuCo), the public corporation involved in managing the industry, expects to spend US\$169m on the Skeldon Modernisation Project (budget, 2007) in Berbice, which is expected to be completed in 2008. This project, which is expected to inject new life into the industry, is based on a shift from conventional milling to diffusion technology, use of bagasse as fuel, and the generation of fuel to feed into the national grid (GuySuCo). It is expected to facilitate the expansion, rather than contraction, of sugar cane cultivation. Guyana is likely to benefit from the decisions of ACP ministers to allocate St. Kitts' production quota to CARICOM (Stabroek news, 2007). Guyana also hopes to increase the value added to be gained from the sugar industry by moving towards producing, packaged, branded sugar for direct consumption on the European market (Surujbally, 2006). It also aims at expanding production to CARICOM (ibid). GuySuCo is concerned that an EPA does not undermine Guyana's attempt at marketing refined sugar, particularly in the CARICOM market, by opening the market to EU refined sugar (Surujbally, 2006).

Guyana has been actively seeking to diversify its economic base, with the development of livestock farming, forestry and fishing. Forestry is targeted as a sector for growth. In 2006 it expanded by 11%, which saw a 42% increase in earnings as a result of increased investment and a rise in the global demand for forestry products (Budget, 2007). Guyana has already begun exporting livestock to CARICOM (budget, 2007). This represents an aspect of Guyana's positioning of agriculture as a growth area of supply the food needs of the CARICOM region (budget, 2007).

In 2003, Guyana was cleared by the EU to begin exporting fish to their market (EC-Guyana Review: 2005: 10), serving to diversify its dependence on the US market. The government views fisheries as an area of growth. The sector already employs approximately 10,000 people including in boat building and vending (Mason, 2006). The sector can be differentiated in terms of sea, inland, and aquaculture, with different potentials and challenges. Both the marine and inland sectors suffer from the over-exploitation of some species, which underscores the strengthening the weak regulatory framework that currently exists. Inland fishing plays an important role in sustaining Amerindian populations who largely engage at the level of subsistence. Regulations thus need to take account both of the need for conserving some species, while recognizing the role the sector plays in sustaining Amerindian communities. Shrimp production has grown in importance as a major agricultural export and the opening of the EU market to shrimp imports from Guyana suggests potential for growth. Dawn Mason, Chief Fisheries Officer, has pointed out that the industry has reached its full potential, in terms of catch, and any expansion could threaten stocks and ultimately, its survival. Government is promoting aquaculture as a means of expanding fish production<sup>86</sup> to meet high demands in Europe for fresh water species. The marine sector can also be differentiated in terms of type of fishing: artisan, semi-industrial and industrial. Guyanese nationals dominate artisanal fishing, with 1200 vessels of different sizes and capacities: one-third can be considered large, the rest small. Half of these fishermen operate on a daily basis. Upwards of 80 vessels operate in the semi-industrial fleet, 20% of which are foreign owned, engaging in deep slope fishing (snapper, grouper).

The fisheries sector has a number of problems that need to be addressed to ensure its viability. Weak data collection and monitoring systems mean that there is inadequate information on stocks, which is crucial to the management of the industry. Other challenges include minimizing conflicts that exist between industrial scale and artisanal operators competing for stocks, and preserving space for Amerindian exploitation of inland fishing. The overall challenge the government has to address in the sector can be

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<sup>86</sup> See 'Aqua-culture A Growing Industry', n.d. [www.gina.gov.gy/gina\\_pub/aqua-culture.pdf](http://www.gina.gov.gy/gina_pub/aqua-culture.pdf).

summarized as safeguarding its longer-term viability by ensuring appropriate management and environmental sustainability, at the same time that economic diversification calls for a strategy of expanding fish production. This calls for a clearly differentiated strategy based on sound data bases on under and over exploited species, both inland and in the sea, and a strong regulatory framework and institutions to govern this. These weaknesses, if not addressed, could well end in the sector's demise. An EPA would thus have to be focused on addressing the weaknesses in the sector, rather than in facilitating further liberalisation.

The trend in ACP/EU relations, as evidenced in the commodity protocols, suggests a further weakening of these protocols and hence more difficult terms for accessing the EU market. While this has immediate negative impact Guyana's experience, so far, suggests that there might be longer-term positive effects. This does not negate the ACP's and CARICOM's insistence on appropriate compensation and adjustment assistance, both to avoid social disruption and to fuel diversification. In fact, such support is essential to achieving the latter. These economic shocks have forced Guyana to begin diversifying away from the EU market and enhancing its scope for furthering its integration into regional economies outside of CARICOM such as Brazil, and other South American countries where Guyana is physically located. This provides Guyana with greater opportunity than most other CARICOM countries for expanding its trade and economic relations with South America. Guyana is already part of several initiatives directed at strengthening South American integration; most notable is the Initiative for the Integration of Regional Infrastructure in South America (IIRSA), which was launched in 2000.

IIRSA is focused on strengthening the integration of South American countries by expanding and improving infrastructure – roads, bridges, ports, airports – that connects countries and facilitates trade<sup>87</sup>. Guyana and Suriname are part of this initiative. The Guyanese Shield Hub aspect of the initiative involves Northern Brazil, Guyana, Suriname and Eastern Venezuela. Its elements include the construction of the Boa Vista-Bon fin-

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<sup>87</sup> Information on IIRSA was drawn from Kirton, 2007.

Lethem-Georgetown highway, connecting Guyana with Brazil, the construction of bridges along the highway, and the construction of a deep water port. Another aspect of the project involves developing and maintaining a network of roads and bridges to connect Venezuela, Guyana and Suriname and, eventually, Brazil (Kirton, 2006). These initiatives would increase CARICOM's access to the South American markets, with Guyana and Suriname playing a key strategic role. This could facilitate export diversification beyond the traditional EU and US markets, which is desirable.

### **National development strategy and poverty reduction**

The Guyana government has plans to revitalize the economy to address the main problems of weak growth, poverty and social exclusion. Guyana's development strategy, which was formulated in 1996, is based on the pursuit of export-oriented growth as a means of increasing employment and reducing poverty (NDS, 2000 and PRS, 2002). Guyana's poverty reduction strategy is thus grounded in the NDS. Growth is to be based on increase in exports, savings mobilization and improved education and training (NDS, Ch 3). There is a commitment that this growth must be labour intensive and promote equity. In pursuing export-oriented growth, the goal is to shift production from the traditional sectors of bauxite and sugar, areas viewed as having limited room for expansion, into new growth industries, as a basis for job creation. These include 'woodworking industries, metal-working, textiles, agro-processing and international transportation and trade' (NDS, Chapter 3), development of eco-tourism, and increased production in non-traditional agriculture and development of aqua-culture (ibid). The agriculture sector was to be stimulated by changes in land ownership patterns, transforming leasehold arrangements to freehold, expanding the numbers of farmers with titles and increasing access of the poor to land (ibid).

The NDS' goal of growth driven development, leading to reduced unemployment, has been less than successful. As already noted, growth, for most of the 2000s has been slow, even negative. Economic restructuring was directed at reducing government's role in the economy, especially as a major employer, which included cutting the size of the public sector. Between 1988 and 1999, public sector employment reportedly fell from 35% of

the labour force to 13% (DaCosta, 2007). In addition, the contraction in the bauxite industry has also resulted in job losses. The IMF observes that there is no evidence that where growth has occurred, that this has had any effect on unemployment (IMF, 2005: 2). The Guyana Labour Force Survey of 2000 put unemployment at 45% (ibid). Thus, there appears to be a contradiction between government's goal of increasing employment and reducing poverty, and the imperatives of structural adjustment for a lean and more efficient public sector.

Guyana faces other challenges in health, education and gender equality, which have implications for its achieving the Millennium Development Goals (MDGs). In health, Guyana is faced with one of the highest levels of HIV/AIDs infection in the Caribbean, after Haiti, estimated at affecting between 3.5 and 5.5% of the adult population (EC-Guyana review, 2005: 16). In education, while Guyana has met the MDG goal of universal primary school enrolment (98% in Guyana in 1990) there exist low levels of literacy (71%) among the 15-24 age group (ibid: 13). Despite the favourable enrolment of girls in the education system, unemployment among women is twice that of men, suggesting that challenges remain in achieving objectives in gender equity. The gender equation is complicated by the high drop out rates of males at the secondary level (ibid: 14), which also needs to be addressed.

One of the main inhibitors to Guyana's development and its achievement of the Millennium Development Goals (MDGs), and which the NDS hopes to address is low levels of human resources, aggravated by high out migration rates. Some 20% of the population is said to migrate each year, with over 83% of its university graduates migrating to OECD countries and CARICOM (IMF, 2005:2). The IMF observes that out migration over the last 20 years has hampered the government's efforts to reach sustainable economic growth, and has also limited its capacity to implement programmes. A closely related challenge is the weak data base that exists which reflects weak data collection systems. Weak institutions, which are also a product of the high migration of skills, are endemic and present serious drawbacks for governance.

### **Guyana in an EPA**

In addition to its role as a major market for Guyana's exports, the EU has been a significant source of financial and technical support. EU support is directed at infrastructure, providing the government with direct budgetary support, and social programmes, including job creation. Approximately 40% of the National Indicative Programme (NIP) under the 9<sup>th</sup> EDF is allocated to the rehabilitation of Guyana's sea defences. Under the 8<sup>th</sup> EDF, this accounted for 63% of the total NIP (EC- Guyana review, 2005: 17). The maintenance of sea defences, which suffered from the country's poor economic performance, is crucial to Guyana's viability. The EU is the only donor to provide direct budgetary support to the Guyanese government, largely to meet social goals in health and housing. Disbursement is based on the government meeting IMF conditions, especially in respect of the management of public finances (ibid, 22). Thus, the EU works in tandem with the IMF to ensure that Guyana stays on track in pursuing liberalization policies. EU funds also go towards strengthening the private sector<sup>88</sup>. The EU is also involved in initiatives, such as the Linden Economic Advancement Programme (LEAP), directed at mitigating the worst effects of the declining bauxite industry, by fostering new businesses in an effort at creating jobs. It has also assisted in

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<sup>88</sup> It represented 8-10% of the funds allocated under the 8<sup>th</sup> EDF. See Guyana-EU, 2005: 26.

efforts to increase the competitiveness of the rice sector, and has contributed to reducing Guyana's debt, through its participation in the HIPC initiative (ibid, 22).

#### Development needs and the EPA

Guyana's economy holds significant potential for growth and avenues for investment, across all sectors of the economy, once supply-side constraints that exist are addressed. These include poor internal infra-structure, weak human resources (which is more challenging), and weak institutions. An EPA which addresses these constraints would be of value to Guyana. One of the main inhibitors to Guyana's prosperity, however, is the political instability that exists, the solution to which is largely internal. This could be aggravated, however, if economic investment and growth are seen as occurring at the expense of particular groups. An EPA, therefore, should be carefully crafted to ensure that it does not contribute to the further marginalization of people along geographic, ethnic, and gender lines. It would have to include initiatives to mitigate the social effects of declining sectors. The PPP government has prided itself on its consultative approach in developing both its development and poverty reduction strategies. This approach must be strengthened to minimize social conflicts that might arise from an EPA.

The Guyana government has flagged agriculture as being of special significance to the country, especially in terms of its effects on rural poverty and food security. It is important, therefore, that an EPA does not retard Guyana's ability to develop this sector, especially in creating value-added. Concerns have been expressed in terms of both sugar and rice, of EU imports stymieing the development of these industries. GuySuCo's concerns in respect of sugar have already been noted. Similar concerns exist for rice. Agritrade (2007) suggests that increasing EU rice production could actually lead to a situation where rice producers (in local and regional markets) can also be threatened from EU rice exports and suggest that this could be addressed if the following measures were adopted: the establishment of mechanisms for monitoring EU rice exports to ACP markets; the establishment of swift and effective safeguard measures in the rice sector to allow immediate action to prevent market disruptions; and the establishment of a framework for consultations on rice-sector issues for rice-producing ACP countries.

Given Guyana's commitment to labour-intensive development, it is also important that the development of the agriculture sector, more broadly, does not occur along in a way that would marginalize small-scale producers. There is likely to be tension between commercial (large-scale, highly capitalized) type-agriculture, which would be deemed necessary to the industry's competitiveness, and peasant-type, low-technology agriculture which is crucial in alleviating rural poverty and enhancing food security. An EPA should take account of this tension and not further marginalize the role of small-scale producers from the industry.

Standards across all sectors are important in fostering success. Guyana's weaknesses at in institutions, human resources and data systems need special attention. SPS standards are particularly important in enhancing competitiveness. Agritrade (2007) notes that 'Meeting food-safety measures will become an increasingly critical pre-requisite for continued access to the EU market' and would need to be addressed by specific targeted intervention. In light of the fact that the OECD countries are an important destination for Guyanese immigrants, an EPA should include specific measures to stem the outflow of skilled people from Guyana, especially of health professionals, engineers and teachers, and to encourage return migration. This would be one approach to addressing the dearth of skilled human resources which are fundamental to Guyana's economic and social viability.

Guyana's thrust for economic expansion, particularly in the minerals sector, electricity generation (including hydro-electricity) and in tourism, poses special challenges for environmental preservation. An EPA should contribute towards strengthening Guyana's environmental diagnostic and monitoring capabilities, which are important in mitigating the effects of economic development on the environment. The needs of Amerindian communities and their relationship to the forests should be clearly addressed in an EPA, so that it does not result in their further marginalization.

Conclusions

Guyana has tremendous potential for engendering strong economic growth given its rich resource endowments in relation to other CARICOM countries. Current initiatives at exploration in the minerals, particularly for oil and uranium, if successful, could immediately transform Guyana's economic fortunes. Guyana's experience, so far, however, suggests that this, resources, in of themselves, are not the only or even the main ingredient of economic success. Important considerations to ensure that Guyanese people benefit from such windfalls include specific measures to control the exploitation of these resources in ways that do not simply lead to the repatriation of earnings by the foreign companies that are likely to be spearheading these initiatives; and to ensure that they create employment and business opportunities for Guyanese nationals. They must be guided by the NDS's goal of equity and participation. An EPA, therefore, should not inhibit government's efforts at controlling investment in these sectors to privilege European investors by removing inhibitions on the repatriation of profits, and restricting the government's ability to impose WTO approved offsets. If the Guyanese government is committed to ensuring growth with equity, then it would need to impose some constraints on its liberalization thrust to ensure that this is achieved.

Finally, an EPA should serve to increase Guyana's competitiveness in general, and not be directed to meet the requirements of the EU market. It should also, especially if its goal is to foster the development of the region, not provide access to European investors on such favourable terms as to inhibit Guyana's (and by extension CARICOM's) integration into the economies of South America.

#### Suggested benchmarks

The following benchmarks are based on the foregoing discussion and on views expressed in interviews conducted in Guyana. Specific development benchmarks for Guyana in an EPA would be based on the extent to which it does the following:

- Reduces rather than increases poverty
- Reduces rather than increases unemployment
- Strengthens/preserves, rather than undermines the trade union movement and the rights of workers

- Provides compensatory financing and development support to communities and sectors that are negatively affected by increased liberalization
- Enhances women's access to resources and increasing their participation in economic activities on favourable terms
- Respects Amerindian needs and promotes their rights in the areas which they occupy
- sustains rather than compromises the environment, particularly biodiversity and wild life
- facilitates institutional strengthening based on Guyana's particularities
- does not significantly curtail policy space so as to undermine goals of equity and inclusion
- that it enhances, rather than weakens CARICOM integration, and the integration of CARICOM economies with Central and South America
- it includes specific measures to reduce migration of skills and encourages return migration

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## **Annex C – The Dominican Republic Case Study**

### **Introduction**

The Dominican Republic has the largest economy of the CARIFORUM group of countries. It has a population of 8.9 million, a GDP of US\$29.5 billion and a per capita GDP of US\$3,247.4 (World Bank 2005; Galvan, 2006). It has the distinction of being the fastest growing economy in Latin America and the Caribbean during the past 50 years, with an average annual growth rate of over 5% (UNDP, 2005). Although the Dominican Republic has a history of European colonization, its most significant external partner in the 20<sup>th</sup> century has undoubtedly been the United States and their relationship has driven many of the most important socio-economic changes in the country. Nonetheless, relations with the European Union have been instrumental in the diversification of its economic relations, in its efforts to consolidate democratic government and to achieve human development goals. The Dominican Republic has been engaged since the late 1980s in processes of neoliberal economic restructuring. During the last decade, this has entailed entering into Free Trade Agreements with the Central American Common Market countries and with the United States, with CARICOM and now with the European Union through the EU-CARICOM EPA.

### **Political and Economic Background**

Both the economy and society of the Dominican Republic have lived through far-reaching changes since the 1960s. As Hartlyn (1998: 137) writes, “In 1960, almost 70 percent of the country’s three million people lived in rural areas and 63.7 percent of the country’s labour force was in agriculture. Over the subsequent three decades, the Dominican Republic evolved...to a majority urban (society)...By 1990, it was estimated that 60.4 percent of its 7.2 million people lived in urban areas”. On a related note, the Government’s Trade Policy Report states that in 2001, 72% of the employed population lived in urban areas, while only 27.8% was located in rural districts (WTO, 2002).

For most of the twentieth century, the country existed in a state of relative regional isolation, save for its deeply ambivalent and antagonistic relationship with its neighbour, Haiti. Its history has been strongly influenced by a dominant, fairly exclusive political

and economic relationship with the United States following the US military occupation 1916 – 1924. After the 31 year dictatorship of Rafael Trujillo 1930 – 1961, the country experienced a gradual relaxation of authoritarian rule which resulted by the 1990s in the consolidation of electoral democracy, revolving around three major political parties. In 1996, for the first time in half a century, the Dominican Republic voted for a generational change of political leadership, electing a president who was 42 years old. The decade of the 1990s witnessed significant attempts to restructure the economy of the Dominican Republic and to diversify its foreign relations, in particular by developing stronger links with the European Union and with other countries in the Caribbean and Central America and by becoming more active in multilateral fora, like the World Trade Organization.

In the 1970s, the economy of the Dominican Republic was primarily agrarian, based on the export of sugar, coffee, tobacco, cocoa and the mining of ferro-nickel. The agricultural sector contributed over 18% of the GDP. There were sharp reductions in the US import quotas for sugar in the late 1970s and steep falls in world market sugar prices. Together with the shock generated by energy price rises, these developments triggered a major debt crisis and structural adjustment programme. During the 1980s, the base of the economy underwent a far-reaching and painful transformation to free zone manufacturing and services, mainly financial and tourism services. Restructuring was also encouraged by the implementation of the Caribbean Basin Initiative in 1984, which offered one-way preferential access to the US market for specified non-traditional exports and encouraged US private investment in Caribbean countries that met certain criteria. The value of traditional export earnings fell sharply from US\$1.188 billion in 1981 to US\$530 million in 1993 (Hartlyn, 1998: 139 citing *Boletín Mensual del Banco Central, 1985, 1995*). Conversely, while in 1980, free zone exports accounted for 8 % and services for 22% of total export earnings, by 2000, they represented 53% and 36% respectively of total export earnings (Isa Contreras, Ceara Hatton, Cuello Camilo, 2003: 29). By 2002, the Dominican Republic had 53 Free Zone industrial parks employing over 190,000 or 4% of the workforce (WTO Trade Policy Report, 2002; Rodriguez, 2004:25).

Another significant socio-economic shift occurred in the area of migration and remittances. Large-scale emigration from the Dominican Republic began in the 1960s and increased dramatically during the period of structural adjustment in the 1980s. By 1996, over half a million citizens of the Dominican Republic were estimated to be legally resident in the U.S., seventy percent of whom had arrived since 1980 (Mitchell, 2000: 218). The total number of the Dominicano diaspora in the US may approximate one million (Spanakos and Wiarda, 2003). A smaller part of the diaspora resides in Europe, chiefly in Spain. By 2003, remittances from these migrants accounted for over US\$2 billion or 13.2 % of GNP, the third highest such percentage registered among CARIFORUM countries. It is estimated that over 31% of Dominicano nationals with secondary education and 22% of those with tertiary education migrate to OECD countries (Dawson, 2007: 6, 7). The diaspora has assumed an increasingly influential political and social role in the country, in addition to its economic weight. In 1994, the Constitution was amended to allow dual nationality and in 1997, a law was passed enabling Dominicano nationals based abroad to cast their votes overseas in presidential elections with effect from 2000 (Vega, 2002: 398). There is one other dimension of migration in the Dominican Republic that should be noted. During the past decade or more, immigration from Haiti has increased dramatically. It is estimated that there are between 500,000 and 800,000 Haitians resident in the Dominican Republic, many in very precarious socio-economic conditions (EU, 2005: 12).

Macro-economic reform and restructuring began for the Dominican Republic in the 1980s. Adjustment policies emphasized currency devaluation, foreign investment incentives and the development of transport and communications infrastructure (Ceara Hatton, Isa Contreras, Cuello Camilo, 2003). External factors like CBI and the GATT regime at that time were conducive to the growth of the new export sectors. Up until then, the foreign policy of the Dominican Republic focused mainly on the United States, with limited regional or other international engagement. However, in 1986, the government and some private sector groups began to explore the development of closer political and economic ties with the European Community. This culminated in the Dominican

Republic's accession to the EC-ACP Lome IV Convention in 1990, which led the country into a deeper relationship not only with the EC but with the rest of the Caribbean.

Ceara Hatton and Isa Contreras (2003) argue that domestic and international trade policies, influenced in particular by the Uruguay Round of Multilateral Trade Talks and the establishment of the WTO in 1995, were the driving forces behind the second phase of liberalization which began in 1990. These reforms were aimed at integrating the Dominican Republic into the increasingly globalized international economy. It was felt that trade policy had a vital part to play in national development strategies, since it could encourage an upgrading and increasing of domestic productive capacity, a more aggressive insertion into international markets and thus, a strengthening of international competitiveness (FTAA, 2004)<sup>89</sup>. The Dominican Republic's New Economic Programme included a 1993 simplification of all trade taxes into eight tariff bands, with a maximum duty of 35% and a minimum of 3%. A second customs reform took place in 2001 which further reduced most tariffs to 20% or less. The WTO (2002) records that the average applied tariff rate for goods was then 8.6%. A final adjustment was brought about by the CAFTA-DR Agreement, whereby in March 2007, 80% of the Dominican Republic's import duties, mainly on consumer and industrial goods, were reduced to 0%, while the remaining 20% would be phased out over a ten year period.

The years 1995 - 2002 also witnessed a reform of the taxation system, reform of the labour laws and of the foreign investment regime, new laws to govern the Free Zones, the banking sector, intellectual property, the development of telecommunications, export development and the further development of tourism. The fiscal reforms were linked to the need to restructure the country's tax system away from a heavy reliance on customs duties. Their contribution to government revenue was reduced from 26% in 2000 to 16% in 2001. This switch to greater dependence on internal taxes has continued (WTO, 2002). Another trend evidenced during the liberalization programme has been that of persistent trade deficits. Import volumes rose over 13% between 1996 and 2000 (WTO, 2002).

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<sup>89</sup> Galvan, 2006, notes that international trade by 2004 contributed 45.5% of the Dominican Republic's GDP.

This programme that began under the Balaguer administration in 1990 intensified during the Fernandez administration 1996 – 2000, focusing strongly on trade policy and the search for foreign investment. Although the United States remained the dominant economic partner, economic relations were expanded and diversified by the signing of trade liberalization agreements with the Central American Common Market in 1998 and CARICOM in 2001. The former entered into force between 2001 and 2002. The FTA with CARICOM remains incomplete, limited to trade in goods. Negotiations to extend it to incorporate trade in services and reciprocal market access between the Dominican Republic and the OECS were scheduled for 2004 but have not taken place. This is a source of dissatisfaction and disillusionment among some stakeholders in the Dominican Republic.

With effect from 1997, the Dominican Republic assumed a more proactive and prominent stance in multilateral diplomacy in general – in the WTO, in ACP-EU negotiations and in the ten year hemispheric quest for a FTAA. The government launched an initiative in 1998 to form a Caribbean Central American Small States Strategic Alliance in the FTAA negotiations, proposing that the Dominican Republic should act as the bridge between the two groupings. The proposal did not receive much support from either of the two communities. Ultimately, the Dominican Republic opted to act alone or with Central America in FTAA negotiations and to collaborate with CARICOM in Lome-Cotonou negotiations. To this end, it set up trade negotiating machinery (the Comision Nacional de Negociaciones Comerciales, CNNC) and participated in the Caribbean Regional Negotiating Machinery (CRNM) in ACP-EU negotiations.

The country's new international trade policy, aimed at gaining access to new markets in Central America, the Caribbean and the rest of the hemisphere, proved to be controversial. The focus on the region was questioned because of the lack of concrete economic returns and the changing global and hemispheric conditions, in particular, US security and trade policy stances, as of September 2001. For the most part, the regional FTAs have had little effect, since by 2005, 40% of DR exports still went to the United

States, 18.8% to the European Union and 8.8% to Haiti, a country with which the DR has no preferential agreements (WTO, 2007). The export base remained narrow, with Free Zone manufactured textiles and electronic goods still accounting for 77% of exports (Galvan, 2006). With the Mejia administration 2000 – 2004, diplomacy reverted to an almost exclusive focus on the United States. Influenced mainly by the vulnerabilities of the Free Zone manufacturing stakeholders, the Dominican Republic concentrated its efforts on joining with the CACM to negotiate a free trade agreement with the US that would replace and maintain the preferential market access to the US granted under the CBI successor, the Caribbean Basin Trade Protection Act (CBTPA), due to expire in 2008. This resulted in the CAFTA-DR, negotiated between April and August 2004, which entered into force between the Dominican Republic and the United States in March 2007.

CAFTA-DR removed duties on 80% of US consumer and industrial goods exported to the Dominican Republic with effect from its date of implementation. Duties on other goods would be phased out over a ten year period, fifteen years in the case of some sensitive agricultural products. There is also a transitional safeguard mechanism where a temporary additional duty can be imposed on specified agricultural products during that calendar year, under certain specified circumstances. CAFTA-DR covers the cross-border supply of services, the right to invest and to establish a local service presence. It takes a negative list approach. CAFTA-DR also dismantles the Dominican Republic's regulations that afforded protection to local dealers and distributors (INTAL, 2007; USTR, 2007; EIU, 2004).

While the CAFTA-DR would ensure ongoing access to the US market for Free Zone exports, it was estimated that it would result in a loss of revenue to the Dominican Republic of approximately 2.5% of GDP (Government of the Dominican Republic, Memorandum with Letter of Intent to the IMF, 2007). This has led to three attempts at fiscal reform since 2004. The last corrective tax package was passed in the DR Congress in December 2006. It was hoped that this new tax legislation would yield 1.5 % of GDP to partially replace the revenue shortfall. Far-reaching changes would come to the

agricultural sector, since over a period of two decades, CAFTA-DR would completely liberalize the import regime for agricultural products from the US. The CAFTA-DR also has certain multilateral dimensions. This means that it has implications for the Dominican Republic's agricultural trade with the CACM and it has induced bilateral negotiations with each of those countries to determine the treatment of designated sensitive products. Only limited recourse to safeguard measures is permitted (Isa-Contreras, Aquino-Gomera, December 2004).

### **The Competitiveness and Human Development Debates in the Dominican Republic**

During the last two decades, high growth rates in the Dominican Republic have been based on the performances of the Free Zone exports and services such as tourism, telecommunications, transport, construction and electricity. Critics point to several weaknesses in the development strategy and performance. These include the “dualistic” nature of its manufacturing sector, split between the Free Zone sector which accounts for close to 80% of goods exported and the domestic manufacturing sector, which has struggled to regain dynamism since the 1980s when its protective regime began to be dismantled. The Free Zone segment has the ongoing challenge of adjusting to the end of the Multi-Fibre Agreement in 2005, the deadline of 2007 – 2009 for the elimination of export subsidies in the Free Zone regime and the huge impact of China's full participation in international markets. The Free Zones are described by the WTO Trade Policy Report (2002) as “having a high reliance on imported inputs, weak backward linkages, (making) limited contribution to domestic welfare...(being) vulnerable to foreign business cycles and policy changes elsewhere” (WTO, 2002). The traditional export sectors of mining and agriculture have declined steadily since the 1990s. Exports of domestically produced goods (i.e. non-Free Zone) represent only about 20% of the total volume (UNDP, 2005; Isa Contreras and Ceara Hatton, 2003; WTO, 2002). Between 2000 and 2002, the country's export-led growth strategy began to lose momentum. This was highlighted by the country's plunge into a serious economic and social crisis in 2003 – 2004, triggered by problems in the banking sector. It entered into a new Stand-By Agreement with the IMF in 2004 (World Bank, 2007).

This has led to a considerable debate in the last decade about strengthening the country's international competitiveness<sup>90</sup>. A *Plan Nacional de Competitividad* was produced in 1998, followed by a *National Council for Competitiveness* in 2002. Recommended strategies towards achieving competitiveness have included the following objectives:-

- Increasing tourism earnings
- Searching for higher value-added production in the Free Zones
- Restructuring the domestic manufacturing and agricultural sectors, introducing new products with greater earning capacity
- Identifying new long term opportunities for non-traditional sectors (Vial et al, 2004).

A report prepared during the course of the FTAA negotiations identified the need to build the Dominican Republic's trade negotiating capabilities; the need to enhance the country's capacities for administering trade agreements in areas such as safeguards, rules of origin, customs procedures technical barriers to trade and sanitary and phyto-sanitary measures; the need to develop sectoral export promotion plans, to identify new market niches in the hemisphere, to guarantee the population's food supply and to boost agricultural exports (FTAA/CNNC, 2004).

Even more significantly, major weaknesses have been identified in the Dominican Republic's human development indicators and in its institutional capacities. The Dominican Republic's HDI ranking is 94 (UNDP, 2006) i.e. it is located among the lowest one third of CARIFORUM countries. In many key indicators (life expectancy, literacy rates, combined rate of primary, secondary and tertiary education matriculation), it falls below the Latin American and Caribbean average (UNDP, 2004) and its per capita GDP has improved considerably faster than has its HDI. In 2006, the Poverty Assessment Report listed 42% of the population as poor and 16% as living in extreme poverty (World

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<sup>90</sup> One definition of competitiveness that seems to have been used in the Dominican Republic comes from McArthur and Sachs 2002, and appears in Vial et al, (2004: 24) *Republica Dominicana: Estrategia Nacional de Desarrollo y Competitividad*, "...the capacity to sustain high rates of economic growth for a prolonged period". The 2005 UNDP *Informe Nacional de Desarrollo Humano*, p. 22, widens this definition usefully by linking competitiveness to human development issues and to the Dominican Republic's need to insert itself into the global economy in an inclusive and sustainable manner.

Bank, 2007)<sup>91</sup>. There is a greater incidence of poverty among the female population and female unemployment in 2002 stood at 26%, while male unemployment stood at 9.5% (EU, 2005). Human development has lagged far behind economic growth. This has translated into low levels of investment in health and education and poor provision of such public goods being identified as crucial weaknesses in competitiveness. The poor functioning of public institutions engaged in regulation, in the delivery of justice and in the provision of public services is signaled as a major area of weakness which impacts negatively on the competitiveness of key economic sectors and activities (Vial et al, 2004; UNDP, 2005). Gaps in the country's electricity-generating capacity remain another huge competitiveness challenge.

With regard to competitiveness support programmes in the area of production, several stakeholders feel that there have been many dispersed actions to promote competitiveness rather than the formulation and implementation of an overall, coherent strategy (Interviews with private sector and civil society representatives, Santo Domingo, December 2006). Government policy documents since 2004 have prioritized poverty eradication and a Presidential Commission for the Achievement of the Millennium Development Goals was set up in 2004 (EU, 2005). Paradoxically, although economic liberalization and free trade have been viewed as a means of improving international competitiveness, the loss of government revenues from trade taxes and the increasing tax burden on the population may well lead to delayed and reduced investment in human development. The IMF Economic Programmes of 2004 - 2006 have been closely scrutinized and criticized for potentially adverse effects on the Dominican Republic's efforts to achieve its Millennium Development Goals (EU, 2005; Offendal, 2006).

### **The Dominican Republic and the European Union**

When the Dominican Republic acceded to the Lome IV Convention in 1990, it may have hoped that its banana and sugar producers would benefit from the preferential market

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<sup>91</sup> The World Bank Country Profile, 2007, p. 2, states that "Poverty and the incomes of the poor saw virtually no improvement during the growth bonanza of 1997 – 2002".

access granted to traditional ACP suppliers of those commodities under the Sugar and Banana Protocols. However, it was excluded from these benefits on the grounds that it was not a traditional ACP supplier. Its bananas have entered the European Union on similar terms to other Latin American suppliers. Ultimately this may have placed the Dominican Republic at an advantage, since it is now the leading supplier of organically grown bananas to the European Union (interviews, Santo Domingo, December 2006). However, it was also viewed as discriminatory, since all other CARIFORUM countries except for Haiti, enjoyed the preferential terms of trade granted by the Protocols. On the issue of the commodity protocols, therefore, the Dominican Republic held a different position to the rest of CARIFORUM-:

*With regard to the contentious trade issues affecting the European Union's relations with its Caribbean partners, there has not been much of a reaction from the Dominican Republic e.g. in the case of bananas, there was not much of a reaction because the country hopes to benefit from an exclusively tariff-based regime due to its greater competitiveness and because it is not one of the ACP traditional banana exporters to the EU, and in the case of sugar because the country has never benefited from the preferential treatment of the protocol (EU, 2005: 7; translated by writer).*

The European Union is the Dominican Republic's second most important trade partner, accounting for 18.8% of exports and 10% of imports (Galvan, 2006; WTO, 2006). Trade with the EU has concentrated on agricultural products like bananas, mangoes and coffee, and tourism services. It is noteworthy that some of the emerging non-traditional products depend largely on the EU market, rather than on the US market (UNDP, 2005). Yet, the EU market pales in significance to the overwhelming economic presence of the United States and the EPA negotiations seem to have evoked far less interest and public involvement than in the case of CAFTA-DR (interviews private sector and civil society representatives, Santo Domingo, December 2006).

The EU also accounts for 40% of the DFI flows into the Dominican Republic between 2000 and 2003. Most of this investment is concentrated in the tourism, construction and telecommunications sectors (Galvan, 2006). The EU and five of its member states jointly

provide 26% of all the country's development cooperation financing and have been significant actors in the pursuit of human development goals. The Dominican Republic has benefited since 1990 in development aid disbursements from EDFs 7, 8 and 9<sup>92</sup>. The areas of emphasis at various times have been support for macro-economic reforms, educational reform, health, water and sanitation, natural resource management, institutional reforms in the areas of democracy and citizenship, physical infrastructural development and post-hurricane rehabilitation. Significant amounts of funding have also been provided by the EU under the CARIFORUM Regional Funds or Dominican Republic-Haiti Binational Initiatives to carry out joint projects in environmental conservation, health and small business development. These are mostly located in the Dominican Republic-Haitian frontier zones and are intended to stimulate economic and community development on both sides of the border and improve relations between the two countries (EU, 2005).

Stakeholders in the Dominican Republic see the CARIFORUM-EU EPA as having potential benefits in the area of investment and stimulating new joint ventures especially in the tourism sector. They view the EU as a useful market for agricultural products, especially for some non-traditional exports. They are particularly interested in expanding their trade with EU territories in the Caribbean. From all accounts, it seems that the Dominican Republic would also benefit if the EPA were to have the effect of further liberalizing trade among CARIFORUM countries themselves.

One study (Galvan, 2006: 21 – 25, 32 - 33) warns of the potentially damaging impact of the EPA on some agricultural sectors in the Dominican Republic, notably on dairy products, on manufactured ceramic products like tiles, certain food and drink manufactured products and on the furniture industry. It emphasizes the need for adequate recognition of asymmetries between the Dominican Republic and the EU and the inclusion of appropriate Special and Differentiated Treatment in the EPA. It also points to the need to take into account some potential fiscal fall-out from the EPA. It lists the

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<sup>92</sup> Excluding regional funds, this aid amounted to Euros 616 million 1990 – 2002 and Euros 176 million were provided in EDF 9 for use 2002 – 2007 (Galvan, 2006).

following themes as being of particular interest for the Dominican Republic: Free movement under Mode Four liberalization of trade in services; the challenge of implementation issues for Dominican institutions; sanitary and phyto-sanitary issues as well as other technical barriers to trade.

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## **Annex D – The Jamaica Case Study**

### **Introduction**

A recent study on sustainable growth generation in Jamaica sums up the situation thus: “Jamaica’s economic history is a story of paradoxes and potential” (World Bank, 2003: *xi*). On the one hand, the study points to Jamaica’s record of high investment inflows and poverty reduction since the mid-1990s. On the other hand, the country has experienced over twenty years of stagnant growth, very high crime rates and a crippling debt burden. Although Jamaica enjoyed healthy GDP growth rates of over 6% per annum between 1952 and 1972, largely based on its bauxite mining and tourism sectors, it experienced a downward economic spiral in the 1970s, followed by almost three decades of structural adjustment and macro-economic reform programmes (Payne and Sutton, 2001; Thomas, 1988). Despite the market reforms, the economy still relies on a number of traditional productive sectors which are in long term decline. The shift to non-traditional exports has been a slow process. Faced with the social and economic challenges of globalization, the Jamaican state and society struggle to find the right balancing formula for policies aimed at debt reduction and fiscal austerity, poverty alleviation, social stability and boosting the country’s falling competitiveness indicators.

### **Socio-economic Background**

Jamaica is one of the three largest CARIFORUM countries with a population of 2.7 million (World Bank, 2005). Jamaica ranks 104 out of 177 countries on the Human Development Index (UNDP, HDI 2004). As far as CARIFORUM is concerned, it is ranked above Guyana and Haiti, 105 and 154 respectively in the HDI. GDP per capita is recorded as approximately US \$3,370 (Planning Institute of Jamaica, 2006a) and the country’s average GDP growth rate between 2000 and 2005 has been 1.6%. The number

of people living below the poverty line has been reduced considerably since 1995 and now amounts to 19.1% of the population.

A recent Country Brief issued by the World Bank emphasizes Jamaica's stable democratic institutions, dating back to 1962, and its social indicators (life expectancy, literacy rate, enrollment in primary and junior secondary education, access to water and sanitation facilities) that generally compare favourably with many countries in higher income brackets. Jamaica is said to be on track to achieve most of its Millennium Development Goals, but notably, not its targets for reducing the infant and maternal mortality rates. HIV-AIDS prevalence rates are also a cause for concern (Planning Institute of Jamaica PIOJ, 2005; World Bank, 2007).

Jamaica has a very heavy debt burden which amounts to 150% of GDP and interest payments are over 16% of GDP. Debt servicing consumes approximately 50% of the recurrent budget (EU, 2004). The IMF (2007) states that approximately half of the debt is domestic. Interest payments on both international and domestic debt account for a substantial part of government spending and severely constrain other types of public expenditure. Jamaica's very large debt is seen as the single largest obstacle to sustained economic growth.

One of the challenges facing successive governments has been that of job creation. The rate of job creation recorded between 1991 and 2001 was less than 0.3% per annum and partly as a consequence, Jamaica's out-migration rates have been high<sup>93</sup>. It is estimated that about 80% of tertiary level graduates and 30% of secondary level educated persons trained since the beginning of the 1990s have migrated overseas (World Bank, 2003;

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<sup>93</sup> The Planning Institute of Jamaica (2005) mentions an average figure of 20,000 per year for the first years of the 21<sup>st</sup> century. Although the natural rate of population increase in Jamaica is recorded as 1.5% per annum, due to out-migration the population growth rate is only 0.5% per annum.

Dawson, 2007). Analysts have raised several concerns about this outflow. The country loses a high percentage of its education and health professionals and there is an undeniable, though not easily quantified, loss of social capital to migration. Most of the outflows of skilled labour have also been trained at heavily subsidized public institutions and the ultimate beneficiaries are mostly OECD economies. On the other hand, the Jamaican economy, particularly at the level of individual households, depends heavily on remittance inflows from migrant workers, to the tune of US\$1.4 billion in 2003, or 17.4% of GNP (Dawson, 2007).

The general unemployment rate for 2005 was 11.3%. The female unemployment rate of 15.8% was considerably higher than that of their male counterparts – 7.6%. This gives particular cause for concern since 46% of Jamaican households are headed by women and female-headed households generally contain higher numbers of child dependents (PIOJ, 2006b). There are also many pressing social issues affecting youth. The unemployment rate for young people between the ages of 15 and 24 years in 2004 was 26% (Planning Institute of Jamaica, 2006a; World Bank, 2007). Jamaica is likewise reported to have the highest teenage pregnancy rates in the English-speaking Caribbean and there are high drop-out rates for young males in the secondary education system. Males in the 15 – 35 age bracket are heavily represented in the violent crime statistics. Violent crime takes a toll of at least 4% of GDP, measured in health, security and lost production costs (World Bank, 2003; PIOJ, 2005, 2006a).

Since the 1980s, economic reform programmes have focused on liberalizing trade and monetary policies; debt reduction, broadening the tax base and increasing revenue

collection<sup>94</sup>; controlling inflation; restructuring the public sector and the financial sector; upgrading infrastructure as far as possible; supporting the development of the private sector; improving social protection. These reforms have experienced some major setbacks, notably the financial sector crisis in 1995 – 96, which resulted in the state absorbing bank debts equivalent to 44% of GDP and a recession in 1997 – 98. There have been several natural disasters between 1999 and 2007 (droughts, floods and four hurricanes of varying degrees of intensity), and there have been steady increases in world energy prices since 2003. In this context, Jamaica's fiscal management has deteriorated since 2001 and the budget has fallen prey to rising public sector wages, natural disaster recovery costs, the contracting of new debt and debt servicing. One measure taken to address the need for fiscal austerity was the institution of a Memorandum of Understanding between public sector workers and the government for a wage freeze 2004 – 2006 (PIOJ, 2005; WTO, 2005). Such wage freezes could not be renewed in 2007 in the light of rising discontent among public sector employees. Quality of life and social policy issues, measured not only against Jamaica's past record but against the records of other CARICOM countries, have been hotly debated in the 2007 general elections campaign.

Services account for over 70% of Jamaica's GDP. Tourism and shipping/berthing are the major revenue earners. In fact, tourism and remittances are the two leading sources of foreign exchange for the economy (PIOJ, 2006a, WTO, 2005). Agriculture contributes 5% while mining accounts for 5.8% of GDP (PIOJ, 2006a). Manufacturing generates 13.4%. The bauxite and alumina industry has increased its output and exports since 2000.

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<sup>94</sup> Taxes now account for 25 – 27% of GDP, an amount which the World Bank claims is among the higher rates in the developing world. See World Bank (2004).

However, traditional agricultural exports, sugar cane and bananas, have been in constant decline, affected by weather and the phasing out of preferential market access and preferential prices, which have negative implications for their long term competitiveness<sup>95</sup>. Some other agricultural products have registered modest growth, but the sector is highly vulnerable to weather conditions and other risks. The manufacturing sector has registered negative growth since 2000, with the apparel industry, in particular, experiencing a dramatic decline by 2005 to 1/10 of its earnings for 2001 (PIOJ, 2006a). Jamaica's non-traditional export sector contains some agricultural and agro-processed exports and cultural goods which include a number of entertainment products. Although they represent only 25% of the value of the traditional merchandise exports, their performance has been stable for the last five years (PIOJ, 2006a).

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<sup>95</sup> As an ACP country classified as a traditional exporter of bananas to the EU, Jamaica enjoyed preferential market access to the EU in the form of a duty-free export quota under the Banana Protocol of the Lome Conventions. Despite its higher production costs, this allowed it to maintain some market share in the EU in relation to the more competitive "dollar bananas" from Latin America. Between 1991 and 2001, the EU's banana market regime was challenged legally in the GATT and then in the WTO by Latin American producer countries and by the US. Successive rulings required the EU to switch to a tariff-only banana regime. Between 2001 and 2006, the EU has proposed a number of measures that would enable ACP producers to maintain a foothold in the market, but these proposals have all been ruled out by the WTO. Although the Jamaican banana industry has recently been performing well (173% increase in exports in 2006), the outlook is gloomy for ACP Caribbean producers, many of whom will be forced out of banana production as tariffs are lowered and their bananas are outpriced. Jamaica has been a beneficiary of the EU's Special Framework of Assistance for ACP banana producers which provides funding for improving the industry's productivity and for rural diversification. See Jamaica Gleaner, March 20, 2007; Jamaica Ministry of Foreign Affairs and Foreign Trade [www.mfaft.gov.jm/?q=bananas](http://www.mfaft.gov.jm/?q=bananas) accessed 8/28/2007; Jamaica is a signatory to the Sugar Protocol, also originally a part of the Lome Conventions, under which it enjoyed an export quota of cane sugar to the EU and was paid prices 2% below the prices paid to EU sugar producers under the Common Agricultural Policy. Between 2004 and 2005, the European Commission announced a new Sugar Regime, under which prices paid to ACP producers would be cut by 36% between 2006 and 2009. In 1999, sugar represented 49% of Jamaica's agricultural exports, and 8% of total exports. Sugar workers made up 16.4% of the total employment in agriculture, and 2.9% of total employment. It was estimated that Jamaica stood to lose 22.9 million Euros annually (2002 export levels multiplied by the price cuts), or JA\$2.1 billion by 2009 as a result of the changes in the Sugar Regime (Chaplin and Matthews, 2005; Jamaican Minister of Agriculture Roger Clarke in *The Gleaner* 29/11/04. It was later agreed that the EU would pay a compensation package to ACP sugar producers of 40 million Euros in 2006 and 1.2 billion Euros 2007 – 2013. Jamaica received a first installment of this money in the amount of five million Euros in 2007. The major share was destined for direct budgetary support while 800,000 Euros would fund a study on the training needs of workers in the sugar farming communities (*The Gleaner* 14/03/2007; 3/03/2007).

## Competitiveness and Trade Policy

In 2001, Jamaica was assigned a ranking of 52 in the Global Competitiveness Index. In 2006, this position had slipped eight notches to 60<sup>96</sup> (Payne and Sutton, 2007; PIOJ, 2005). Debates and proposals on competitiveness and productivity in Jamaica have focused on restructuring under-performing industries, encouraging the development of non-traditional industries and exports and strengthening Jamaican firms' capabilities to access international and regional markets. These strategies are being implemented in a context where over 70% of firms are Small and Medium Sized Enterprises (SMEs), which require special support measures, including access to much larger credit flows, to build their capacity for both local and foreign markets. The generation of employment has been a policy priority. This has resulted in the defence of existing jobs in the sugar and banana sectors and the search for new employment opportunities in sectors like tourism, construction and data processing. An important policy consideration comes from the fact that small businesses provide a significant number of jobs, both in the formal and informal sections of the Jamaican economy, providing yet another reason to pay particular attention to support measures for this sector (Small Business Association interview, December 2006).

The *National Industrial Policy 1996 – 2010* identified five strategic clusters of industries which were seen to be crucial to future growth: tourism, shipping and berthing, agro-processing, apparel, bauxite and alumina. Since then, the *New Trade Policy* of 2001 has added a focus on non-traditional exports like fashion and design, entertainment products and other cultural goods, professional services (PIOJ, 2005). Critics point out that there is

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<sup>96</sup> It should be noted that Jamaica still placed second of all the Caribbean countries listed, after Barbados (30) and ahead of Trinidad and Tobago, the Dominican Republic, Suriname and Guyana (Payne and Sutton, 2007).

still no coherent national competitiveness strategy, although efforts have been underway since 2005 to draft one (Interviews, December 2006, January 2007). The existing strategy to build competitiveness is described as defensive rather than offensive since it focuses more on the bolstering of traditional industries and the defence of existing market share than on the search to exploit new markets and promote new products. Private sector interests also point to tensions in public policy between measures aimed at greater taxation and fiscal austerity and the goals of capacity and competitiveness-building.

In addition to the firm-specific elements of a competitiveness programme for the country, government policy documents list other priorities, which include the modernization of physical infrastructure; reduced bureaucracy and greater efficiency of public agencies; reform of the educational system; reductions in crime; continued poverty reduction and the provision of equitable access to social amenities (PIOJ, 2005; WTO, 2005; EU, 2004).

Agricultural products account for 26% of Jamaica's merchandise exports, fuels and mining products for 66.5% and manufactured products for 7%. The EU 25 collectively account for 32% of the country's export market, the United States for 21.5%, Canada 19% and the People's Republic of China for 11.8%. Jamaica's most significant sources of imports, in order of precedence, are the United States, Trinidad and Tobago, the EU, Japan and Brazil. Jamaica has quite low tariff protection levels. Its average effective applied tariff for non-agricultural goods is 7.3%, and in the case of agricultural goods, it goes up to 17% (WTO, 2006). The country's merchandise trade balance has evidenced a widening deficit since the late 1990s.

In 2001, Jamaica published a New Trade Policy. It named the Ministry of Foreign Affairs and Foreign Trade as the major government agency charged with the formulation and coordination of trade policy. It aimed to involve the private sector and civil society much more actively in production-related discussions and in the formulation and implementation of trade policy. To this effect, the Jamaica Trade Adjustment Team, a broad based group of representatives from the productive sectors, academia, non-profit organizations and professional associations, was established for consultations on trade issues. The Ministry of Foreign Affairs and Foreign Trade works very closely with CARICOM and with the Regional Negotiating Machinery (RNM), since Jamaica's trade policy is set within the framework of CARICOM/CSME trade policy and trade relations. The New Trade Policy "recognized the need to fulfil Jamaica's obligations under the WTO, to negotiate time concessions to facilitate adjustment activities, to negotiate for special small size concessions, to alleviate supply side constraints, modify or create new trade-related institutions and to utilize existing Special and Differential Treatment provisions" (WTO, 2005). One objective of trade negotiations has been to seek to retain preferences and to derive maximum benefit from SDT for as long as possible in order to facilitate the economic adjustment process. Given Jamaica's stringent debt servicing pressures, fiscal constraints are also prominent influences on trade policy. Revenue calculations weigh heavily in trade negotiating positions.

Within this framework, compliance with the requirements of the CARICOM Single Market and Economy is Jamaica's first circle of trade policy. Jamaica committed itself to a leadership role within CSME that rendered it fully CSME-compliant by 2006. Most CARICOM products enter the Jamaican economy duty-free. However, Jamaica has not,

to date, derived much advantage from the CARICOM export market. It has a considerable trade deficit with major CARICOM partners and many Jamaican firms find it easier to access their traditional North American markets than to make inroads into the CSME. The latter has been more valuable as a source of regional investment flows into Jamaica and as a regional labour market (IDB, 2005; CARICOM, 2006).

Jamaica, as a CARICOM member state, is signatory to preferential trade agreements with Venezuela (1991), Colombia (1994), Cuba (2003), Dominican Republic (2000) and Costa Rica (2004). However, the enhanced market access arrangements have not translated themselves into significantly increased trade exchanges. Jamaica participated as part of CARICOM in the FTAA negotiations which have remained suspended since 2005. Trade with Canada takes place under the CARIBCAN agreement. Canada and CARICOM have been discussing the possibility of embarking on FTA negotiations.

Trade relations with the United States, Jamaica's major trade partner, is regulated by the CBERA Act of 1991 and the Caribbean Basin Trade Protection Act (2000), which offers enhanced market preferences for the CBI countries until September 2008<sup>97</sup>. In light of the imminent expiry of this arrangement and probably against the backdrop of the CAFTA-DR agreement, Jamaica and the other CARICOM countries have been engaged in exploratory talks about the possibility of launching free trade talks with the United States. Trade with the European Union is regulated by the Cotonou Partnership Agreement, the trade dimension of which runs out in 2008 and is due to be replaced by the EU-CARIFORUM Economic Partnership Agreement, currently under negotiation. The Jamaican economy will have major adjustments to make to cope with the definitive end

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<sup>97</sup> It should be noted, however, that the USTR report for 2002 points out that although the CBTPA increased preferential market access to the US, Jamaica's total exports to the US market for that year took a downward trend, possibly due to the decline in the apparel sector.

to EU trade preferences for sugar and bananas and the gradual introduction of reciprocal free trade with the European Union.

### **Jamaica-EU Relations: implications of the EPA**

Within the European Union, the United Kingdom, the Netherlands and Spain are Jamaica's most significant trade partners. The EU is an important market for Jamaica's agricultural and agro-processed exports. Exports to the EU generate approximately US\$140 million per annum. Although the long term outlook for sugar and banana exports is not bright, the EU also consumes about 20% of Jamaica's non-traditional exports. These exports are viewed by market analysts as demand-driven with a lot of potential for further growth (Interviews, Jamaica Exporters Association, EU-JA Private sector Development Programme, December 2006, January 2007). About 10% of Jamaica's customs duty revenue is derived from EU imports, another important consideration in the trade liberalization process, and one which influences the quest for a longer phase-out period for remaining trade taxes.

FDI flows into Jamaica have been concentrated in the tourism, information and telecommunications and bauxite/alumina sectors. While the United States and Canada are the leading sources of FDI, the United Kingdom, Ireland, France and Spain are also significant players, the latter in new tourism projects.

The European Union and its individual member states are important partners for Jamaica in development cooperation and in maintaining macro-economic policy stability. The production of successive Medium-term Socio-Economic Policy Framework plans has been the condition under which development cooperation has taken place between Jamaica and the EU and other major donors since the termination of Jamaica's IMF

Staff-Monitored Programmes of economic management in the 1990s (EU, 2004). The principal areas of cooperation for the last five years have been a capacity-building programme for the private sector, infrastructural development and rehabilitation which has concentrated on roads and water, a poverty reduction programme and a programme of support for Jamaica's economic and public sector reforms. Jamaica has also benefited from the regional programme of assistance to the Caribbean rum sector, aimed at strengthening its international competitiveness (EU, 2004).

One EPA-related concern has been that existing country allocations of aid may have to be redeployed for trade-related adjustment and capacity-building. Compliance with the EPA provisions will require significant institutional strengthening, regulatory and technological innovations and upgrading. Jamaican stake-holders emphasized the need not to compromise existing development cooperation programmes. The EPA negotiations, in their view, would have to address the provision of adequate capacity-building resources for the implementation of the trade agreement (Interviews, PIOJ, January 2007). There was also considerable concern that there had not been sufficient resources to conduct sectoral sensitivity studies and to analyse the possible effects of the EPA on the labour force.

The following issues were listed by a number of Jamaican stakeholders in the private and public sectors and in civil society organizations as priorities in establishing benchmarks by which to evaluate the EPA negotiations and eventual agreement:-

1. The transition period should be not less than 25 years to enable proper adjustment.
2. Care should be taken to ensure that the EPA in its provisions and in its impact, strengthens environmental regulation and protection in Jamaica.

3. Adequate support should be provided for institutional strengthening. Ultimately this would be beneficial for the country but it would entail a tremendous effort.
4. Enormous attention must be paid and adequate resources must be provided for capacity-building for Jamaican firms in areas like retooling, HACCP compliance, market reconnaissance, meeting EU trade standards.
5. Studies needed to be done on potential areas of job displacement and retraining/deployment strategies drawn up.
6. The negotiations should aim at a simplification of the Lome/Cotonou Rules of Origin requirements.
7. Liberalization of Mode Four service delivery i.e freedom of movement of natural persons, would be essential for Jamaican service providers and for the non-traditional exports in general, to benefit from EU market access.

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## **Annex E: List of Interviews**

List of interviewees - Patsy Lewis (November 30-December 7)

Guyana = 13  
 Dominica = 15  
 Barbados = 9  
 Total = 37

### **Guyana**

#### **Regional organisations**

CARICOM

Dr. Gem Fletcher, Manager Sectoral Programmes

Ms. Myra Bernard, Acting Director, COHSOD, Programme Manager Human Resource Development.

#### **Government**

Mr. Cecil Seepersaud, Ministry of Agriculture

Mr. Denzil Roberts, Ministry of Agriculture

Mr. Juan Solomon, National Agricultural Research Institute (NARI)

Ms. Dawn Mason, Chief Fisheries Officer

Mr. Navin Chandrapual, Advisor to the President on Sustainable Development  
 Sugar

Nisa Surajbally, Marketing Director, Guyana Sugar Corporation Inc. (Guysuco)

Ian McDonald, Guysuco

#### **Trade Unions**

Mr. Kenneth Joseph, General Secretary, National Association of Agricultural, Commercial and Industrial Employees (NAACIE)

Mr. Seepaul Narine, General Secretary, Guyana Agriculture and General Workers Union (GAWU)

#### **Women**

Jocelyn Dow, Liana Cane furniture

Andaiye, Red Thread

#### **Indigenous organizations**

Mr. Colin Klautky, Guyanese Organisation of Indigenous Peoples  
[goip2000@hotmail.com](mailto:goip2000@hotmail.com))

### **Barbados**

#### **Regional Organisations**

Regional Negotiating Machinery

Ramesh Chaitoo, Services  
 Natalie Rochester, Services  
 Allyson Francis, EPA Consultations

**Private Sector**

Taiana Mora-Ramis, Executive Director, Caribbean Export

**Private Sector**

Keith Laurie, President, Barbados Society of Technologists in Agriculture and former President, Barbados Agricultural Society; President, Barbados Sheep Farming Association; Vice President, Barbados Trust; President, Barbados Environmental Society.

**Trade Unions**

Veronica Griffith, Barbados Workers Union

**Government**

Dr. Louis Woodrooffe, Director of International Trade, Ministry of Foreign Affairs

**Civil Society**

Ms. Margaret Gill, Chairwoman, CAFRA

Ms. Chantal Ononaiwi, Trade Lawyer and temporary lecturer, UWI, Cave Hill

**Dominica**

**Trade Unions**

Thomas Letang, Public Service Union

**Government**

Gregoire Thomas, director, Dominica Export and Import Agency (DEXIA)

Mr. Michael Fadelle, Director, Division of Industry, National Development Corporation (NDC)

**Private Sector**

Mr. Garner Eloi, Managing Director, Dominica Essential Oils and Spices Cooperative Society Ltd.

Mr. Raymond Austrie, General Manager, Dominica Banana Producers Ltd (DBPL)

Ms. Jennifer Aird, Director, Chief Executive Director, Domini Corporation and Executive Director, DOMINI Community Project, Inc.

Cecil Joseph, Executive Director, Hucksters' Association

Ms. Judith Pestaina, President, Dominica Hotel and Tourism Association and Garraway Hotel

Achille Chris Joseph, Chief Executive officer, Dominica Association of Industry and Commerce

Mr. John Robin, Managing Director, Benjo's Seamoss and Agro Processing Co. Ltd.

Mr. Imani Shaw, President, Herbal Business Association (DHBA) and Director, Sure Lifesava

Ms. Sharon Jones, Dominica Herbal Association; Director National (or natural?)  
Botanicals

#### Indigenous groups

Mr. Charles Williams, Carib Chief and Head of Carib Council.

#### Civil Society

Ms. Josephine Prince, Dominica National Council of Women

Ms. Roslyn Paul, Women's Bureau

#### List of Interviewees (October 2006 – February 2007)

##### Jamaica

Audel Cunningham – RNM

Patrice Pratt-Harrison – RNM

Michele Lowe – RNM

Marcia Thomas – International Trade Division, Ministry of Foreign Affairs and Foreign Trade

Dr. Barbara Scott, Diana Davis, James Stewart, Barrington Hibbert – Planning Institute of Jamaica

Judith Wedderburn, Friedrich Ebert Stiftung, Kingston Office and Jamaica Association of Development Agencies

Jean Smith, Trade Officer, Jamaica Exporters Association

Nicola Gordon-Rowe, Executive Director, Jamaica Manufacturers Association

Mrs. Stanford, Trade and Environment Officer, Private Sector Organization of Jamaica

Oswald Smith, Mr. Bartley, President and member of Small Business Association of Jamaica

Dr. Andre Gordon, Immediate past President Jamaica Exporters Association, Chair of Competitiveness Programme of JEA and consultant to the Private sector Development Programme funded by the EU

#### Interviews still to be completed in Jamaica:

Esmond Reid – Ministry of Foreign Affairs

Ministry of Finance official

Lincoln Price – RNM Private Sector Liaison Official

Mr. Kong – Fisheries Division

Joan Grant-Cummings – Environmental Foundation of Jamaica

Fiona Black – Jamaica Dairy Industry

Cordia Thompson, Agricultural Consultant

#### Dominican Republic

Consuelo Cruz, Hector Galvan – CIECA

Milagros Puello – Executive Director, Santo Domingo Chamber of Commerce and Productivity  
Frank Castillo – Vice President, Executive Committee of Consejo Nacional de Empresas Privadas (CONEP)  
Roberto Despradel – RNM, Trade Consultant  
Humberto Cristian, EU Delegation, Dominican Republic  
Ambassador Julio Ortega Tous, Ambassador Jose Rivas, Miosotis Rivas, Sacha Cillie, Sr. Ramirez, Sr. Guilliani – Oficina Coordinadora, Comision Nacional de las Negociaciones Comerciales.