

# The CIGI-CaPRI Report on the Caribbean EPA: A Comment

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The Centre for International Governance Innovation (CIGI, based in Waterloo, Ontario Canada) has jointly published with the Caribbean Policy Research Institute (CaPRI, based on the UWI Mona Campus) a paper<sup>1</sup> on the impact of the Caribbean EPA. To quote from the CIGI website, the paper “finds that the economic effects of the EPA on the countries studied — Jamaica, Guyana, Trinidad and Tobago, and St. Lucia — will likely be minimal, despite the fierce opposition to and criticism of the EPA when it was adopted in October 2008, predicting that it will be disastrous for Caribbean economies.”

A large part of the paper consists of a summary of the results of the CAPRI study *The Impact of EPA on Caribbean Economies* (September 2009). In my comment at the launch of the earlier study I listed 13 areas of concern which had been raised by the EPA critics. These concerns, mostly of a long-term and strategic nature, relate to the alleged development-enhancing effects of the EPA and its implications for regional integration, policy space, the direction of the region’s development and the ‘domino effect’ on the region’s international trade negotiations (see the text below, and also that of Havelock Brewster commenting on the CaPRI study of Jamaica). However, neither the 2009 study nor the present paper addresses these concerns in any substantive way. The focus of the study, and in consequence that of a large part of the present paper is on a quantitative analysis of the EPA’s likely trade/production impact and its fiscal effects. In addition, in the course of its generally favourable evaluation of the development impact of the EPA (pp. 7-9) the paper contains a number of assertions of questionable validity; which have been the subject of critical comment elsewhere.

The paper contains some material not found in the September 2009 report--sections on ‘Consultations’, on ‘The EPA Debate in the Political Economy of the English-Speaking Caribbean’ and ‘The Implementation Dilemma’. The first of these says much of what is already well known about the uneven level of participation of non-state actors in the EPA consultation process and the limited extent of EPA awareness among the Caribbean public; a point made from the very outset by the EPA critics.

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<sup>1</sup> CIGI-CAPRI, *The Economic Partnership Agreement (EPA): Towards a New Era for Caribbean Trade*, by Diana Thorburn, John Rapley, Damien King and Collette Campbell. CIGI *Caribbean Paper #10* (SEPTEMBER 2010) Available at <http://www.cigionline.org/publications/2010/9/economic-partnership-agreement-epa-towards-new-era-caribbean-trade>

The section on the debate suggests that criticisms of the EPA sprung from “defence of a declining trade regime and the intellectual tradition that underpinned it”, and “represented for many of the Caribbean intellectual elite the battle over the very traditions upon which they had built their career edifices” (p. 11). The present writer, Havelock Brewster and Sir Shridath Ramphal are referred to by name as representatives of this ‘elite’. However, the argument here raises issues both of method and content. In order to make their case, the authors resort to selective presentation of the views of the critics, combined with caricature of those views that are reported. Opposition to the EPA is reduced to a simple-minded defence of obsolete trade preferences; while the wider developmental and strategic issues raised are ignored<sup>2</sup>. The authors thereby relieve themselves of the responsibility to address these substantive issues; shifting attention from the criticisms to the critics. To use a cricketing analogy, it allows them to ‘play the man, not the ball’. This is hardly a satisfactory defence of the EPA itself. And even if the authors have problems with particular individuals, as they appear to do; they seem to be unaware of the considerable criticism that the EPA has attracted from other quarters, both inside and outside the Caribbean<sup>3</sup>.

This kind of argument also opens the authors to scrutiny of their own philosophical and ideological biases; and of the intellectual positions on which they are building their own ‘career edifices’. We are now entitled to ask, who are Diana Thorburn, John Rapley, Damien King and Collette Campbell? Where are they located in the political sociology, and the institutions, of knowledge creation? By what paradigms are they ‘animated’? What is the underlying political purpose and message of this report, and for what use is it intended? Are they seeking to represent themselves as the avatars of new, ‘modern’ intellectual elite that is better attuned to the requirements of neo-liberal globalisation? Such a perception would be in line with statements made throughout the paper, as well as with its ending conclusion.

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<sup>2</sup> Reference may be made to the 13-point list of criticisms of the EPA mentioned at the beginning of this paper and reproduced in an Appendix to this comment; which is based on materials mostly published on [www.normangirvan.info](http://www.normangirvan.info). Among the many notable commentaries dealing with these issues which, strangely, do not appear in the paper’s references are “Renegotiate the EPA” by Havelock Brewster, Norman Girvan and Vaughan Lewis; Havelock Brewster’s “The Anti-Development Dimension of the EPA”, this writer’s “The EPA: A Critical Evaluation” and “The Fork in the Road”; and Sir Shridath Ramphal’s letter to CARICOM Governments; all of which are available online since 2008.

<sup>3</sup> The materials here are numerous; including technical papers by the South Centre, Oxfam, The High-Level Technical Meeting of the Commonwealth and the ACP Secretariats held in Cape Town in April 2008, Third World Network, and Professor Jane Kelsey of the University Of Auckland School Of Law. Most of these are available at [www.normangirvan.info](http://www.normangirvan.info)

Curiously, the section on “The Implementation Dilemma”, contains observations that are virtually identical to those made by EPA critics--the onerous nature of implementation obligations, the lack of preparedness of the region’s private sector to take advantage of market access in Europe and the ‘endless bureaucratic and administrative hurdles’ in accessing EU development assistance (p. 17) The authors seem to be unaware not only of this coincidence; but also of the apparent contradiction with the generally positive evaluation of the EPA’s provisions that appears earlier in the report (pp. 7-10). They also conclude that the EPA’s success turns on the full implementation of the CSME. But this ignores the noted implementation difficulties, and, more importantly, the argument that the EPA will supersede the CSME, rendering it irrelevant. Even if the authors do not share this view; they surely have a responsibility to address the issue; in a context where the EPA represents a set of time-bound legally binding obligations whilst the CSME can, in effect, be indefinitely postponed.

The authors might also have done greater service to their cause had they engaged in a reasoned evaluation of the conditions under which trade liberalisation between unequal partners can further development; and whether, and what extent, these conditions are present in the EPA. Had they done so, they might have encountered the growing scepticism that exists in many quarters, including in its ranks at least one recent Nobel Laureate in Economics<sup>4</sup>. Indeed almost simultaneously with the appearance of CIGI-CAPRI Report, the Washington-based Council on Hemispheric Affairs (COHA, hardly an anti-imperialist Think Tank), released a report on the North American Free Trade Agreement (NAFTA) that drew attention to several of its negative consequences, particularly in Mexico and Canada, and argued for its renegotiation<sup>5</sup>. Interestingly enough, the last-minute insertion of a mandatory review within five years leading to

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<sup>4</sup> Joseph Stiglitz *Globalization and its Discontents* (2002), esp. chapter 6, “Unfair Trade Laws and Other Mischief”. Stiglitz won the Nobel Prize for Economics in 2001. Useful information is also found in Ha-Joon Chang, *Kicking Away The ladder: Development Strategy in Historical Perspective* (2002).

<sup>5</sup> <http://www.coha.org/negotiating-a-new-nafta-what-and-why-this-is-needed>. Among the findings are that for Mexico, (i) total investment remained basically static as foreign direct investment (FDI) replaced domestic investment; (ii) The majority of FDI was used to purchase already established firms and for "production-sharing operations" (value is added to imported products which are then re-exported, so that benefits from increased exports are limited) (iii) any gains in manufacturing employment have been dwarfed by the loss of over 2.3 million jobs in agriculture because of foreign competition. In the case of Canada, the share of North American FDI has fallen partly because of the magnitude of out-flowing Canadian FDI; "production-shared" has also had weak employment benefits; the import content of exports increased to the point where, by 1997, more jobs were being destroyed by imports than created by exports; Canadian productivity has dropped to 82 % of US productivity, a lower rate than it was in 1961, and income inequality has increased drastically

the possibility of a renegotiation was one of the tangible results of the EPA criticisms; though CARICOM governments have so far shown little inclination to utilise this provision.

There is, therefore, a degree of incompleteness, as well as internal inconsistency, in the CIGI-CaPRI paper, which robs it of much of its intended impact. This is reflected in its concluding statement, to the effect that if the EPA fails, the responsibility will lie “not at the feet of trade arrangements, but at the doorsteps of Caribbean governments” (p. 19). This sounds very much like blaming the victim. The authors do not consider the possibility that bad implementation may be related to bad design--even though some of the material they present clearly points in that direction. Shouldn't development instruments be tailor-made to the reality on the ground, taking into account constraints on the implementation capacity of the public and private sectors? And if there is limited buy-in to implementation, what does this tell us about the process of concluding the agreement?

To be sure, Caribbean governments are not faultless in implementation matters, and the current inertia in completing the CSME is much to be lamented. But to use this as an argument in defence of the EPA as a satisfactory instrument of development involves a giant step in logic that many will not find persuasive.

**Postscript.** The report states (p. 11) that “Girvan and Brewster were given an audience at a CARICOM heads of government meeting in 2008”. The implication seems to be that we had the opportunity to present our concerns to the Heads and failed to persuade them. The facts are as follows. The meeting at reference took place in December 2007 (not 2008) in Georgetown, Guyana; which approved the conclusion of the EPA negotiations. Havelock Brewster and I were not invited to the meeting in our personal capacities. We attended as Observers to the meeting, having been named as such by the University of the West Indies; one of several regional organisations enjoying this courtesy. Observers have no automatic right to speak at CARICOM Heads of Government meetings. They speak only when specifically invited to do so by the Chair. They are also bound by the rules of confidentiality. It would, therefore, be improper for me to give details as to what transpired at the meeting. Suffice it to say that we had aired our concerns about the EPA prior to the meeting, in public commentaries and in open communication to the Heads. On our arrival at the meeting it was made clear to us that the Heads had made up their minds on the matter, subject to some specific details; and that the main factor driving them was the threat of disruption to Caribbean exports made by European officials, come January 2008, if the EPA negotiations were not concluded. Towards the end of the day, and after the Heads had agreed on the position to be taken by the RNM on one or two outstanding issues in the

negotiations, one of us was invited to speak, and was able to do so for five minutes. And that was that. The rest is history.

September 20, 2010.

## .Sleepwalking on to the Free Trade Train Norman Girvan

Comments at the launch of CAPRI Study of the effects of the EPA on the Trinidad and  
Tobago Economy

UWI Institute of International Relations 29 September 2009

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Writing at the conclusion of the Cariforum-EU EPA negotiations, Professor Clive Thomas, one of the region's most experienced and accomplished economists, declared that the EU 'had 'worked' a monumental deception on the region', 'through a mixture of blatant bullyism, bribery, cajolery, deception, intellectual dishonesty and plain bluff'.

Though it might have appeared harsh at the time, Prof Thomas's judgment has since been vindicated. Nearly two years after the alleged deadline for the conclusion of negotiations of December 31, 2007, 35 other ACP countries are still engaged in various stages of EPA negotiations, having either signed only Interim agreements that allow them continued access to the European market, or in some cases, no agreement at all<sup>6</sup>. This was an option that, unfortunately in my view, the Caribbean countries never considered seriously. The haste in signing off on the WTO-plus EPA before all interested sectors of Caribbean economy and society had been fully apprised and consulted on its manifold obligations and implications—the entire text of the Treaty runs to over 1,000 pages—and to provide detailed, considered and deliberate inputs into the final agreement; does not bring credit to Caricom as an example of transparent, democratic, and participatory—let alone consultative—governance; and I fear, one whose consequences we will be living with for years to come, as the full weight of the onerous obligations in legislative, institutional and regulatory actions begin to unfold.

What are the problematic features of the EPA to which critics like me have sought to draw attention? In the slide I have listed 13 areas of concern. In the interests of time I will highlight just a few of these.

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<sup>6</sup> See [http://www.bilaterals.org/rubrique.php3?id\\_rubrique=17](http://www.bilaterals.org/rubrique.php3?id_rubrique=17)

First, no new funding had been provided under the EPA to support upgrading of productive capacities to cope with the changed competitive environment; and the promises of development assistance made in the text are not quantified and not time-bound; and therefore they are not assured and not legally enforceable. What in fact happened is that the already existing aid envelope of the European Development Fund has been largely recycled to ‘EPA Implementation’ and ‘direct budgetary support’. (EPA implementation absorbs 44% of the modest EU165 M of the Regional Indicative Programme for Cariforum; in the case of Jamaica 85% of the National Indicative Programme is for direct budgetary support.)

Second, the right of governments to foster the development of local firms will be restricted by rules requiring equality of treatment with European firms.

Third, the non-tariff barriers to entering the EU market had not been adequately addressed by the EPA.

Fourth, the opening of European services’ markets to the Caribbean will be of limited practical value because of the stringent eligibility requirements.

Fifth, the scope of the EPA goes far beyond the requirements of WTO rules. Apart from the onerous and costly implementation obligations that these will entail; these rules will limit future development policies of Caribbean governments with regard to the fostering of local enterprises and local industries; will pre-empt the rules to be established for the Caricom Single Market and Economy (CSME); has undermined the negotiating position of the ACP and the developing country bloc in the WTO; and has committed the position of Caricom in future negotiations with other trade partners; beginning with Canada.

Sixth, the EPA will marginalise the CSME and will foreclose the strategy of consolidating the regional economy as a platform for engaging with the world economy. We are seeing this already, as there is very little movement on the CSME since the EPA was signed, whereas there has been a lot of talk about ‘Implementing the EPA’.

Seventh, the EPA’s ‘Most Favoured Nation Clause’ will hinder development of trade relations with emerging economies of the South.

Eighth, the ‘Regional Preference’ clause will eliminate the special treatment granted to the Caricom’s ‘Less Developed Countries’ (LDCs, principally the members of the Organization of East Caribbean States O.E.C.S) provided under the Caricom treaty and the Caricom-Dominican Republic Free Trade Agreement. Ninth, the EPA’s implementation machinery contained a degree of supranationality not even present in Caricom’s own governance machinery; in that decisions taken by the Joint Cariforum-EC Council are legally binding on the Caricom member states; and is there are strict procedures and sanctions to deal with non-compliance.

- 1. Inadequate public consultation**
- 2. Development cooperation in EPA not quantified and time-bound**
- 3. Absence of concrete programmes to equip Caribbean firms to cope with competition**
- 4. ‘National treatment’ limits ability of governments to foster development**
- 5. Market presence not just market access - other barriers to exporting to EU not addressed**
- 6. Stringent eligibility requirements for services exports.**
- 7. ‘WTO-plus’ – inclusion of services, investment, intellectual property, public procurement, competition policy**
  - unnecessary for WTO-compatibility
  - limits “policy space” of Caribbean governments
  - pre-empts CSME
  - compromises negotiating position of ACP and G77 in the WTO
  - compromises Caricom negotiations with US and Canada.
- 8. MFN Clause inhibits South-South trade cooperation**
- 9. Regional Preference Clause**
  - abolishes special treatment of Caricom’s LDCS
  - merges CSME with DR
- 10. Supranational governance machinery stronger than Caricom’s**
- 11. Caricom not a Party to the Agreement– promotes regional fragmentation**
- 12. Despite EPA, sugar and bananas still under pressure**
- 13. AfT is highly uncertain in quantity, timing and allocation**

The CAPRI study addresses two very particular aspects of the EPA impact—the dislocation and the fiscal effects—but it does not address the broader strategic and policy implications of the kind noted above. The finding that ‘any disruptive effect of competitive importation of EPA tariff liberalization on the four economies studied will be limited and small’ follows logically from the low share of EU imports in total imports and the non-competing nature of these imports. Similarly, the relatively modest fiscal impact noted for three of the countries are a

natural consequence of the weight of taxes on the energy sector in T&T and the low share of customs revenues in total revenues and of EU imports in total imports in this country and in Jamaica and Guyana.

However, what also needs to be mentioned in determining the fiscal impact is the share of EU imports that is zero-rated at the time the EPA comes into effect. As the table shows, T&T already has 73% of its EU imports duty-free, Jamaica 56% and Guyana 53%. St Lucia, however has 38%, and together with the relatively high share of the EU imports in total imports this produces a rather severe estimated revenue loss, equivalent to possibly 2.8 percent of the GDP. This should sound an alarm bell about the possible fiscal impact on other countries where the share of zero-rated imports is even smaller than in St Lucia and—other things being equal of course—the fiscal impact could be correspondingly greater. These countries include Antigua and Barbuda, Belize, Dominica, Grenada, St Vincent/Grenadines and Suriname, although notably, the Exclusion lists for some of the above are a higher share than for the larger countries and the regional average. Before the CAPRI results can be safely generalised for the smaller countries, therefore, these differences have to be taken into account.

The larger question, however is whether this Report provides any grounds for reassurance about the wisdom of the free trade train that the Caribbean has seemed to have boarded in ‘sleepwalking’ mode; that is, without full and deliberate consideration of strategic implications for regional development. Consider the following scenario. We are now negotiating an FTA with Canada. There are solid reasons for concluding that a Canadian FTA is likely to involve a shorter phasing of import liberalization (10-15 years), wider coverage and less flexibility than those available under the EPA. If Caricom agrees to such terms with Canada, the EU would be entitled to invoke the EPA’s ‘Most Favoured Nation Clause’ to demand similar treatment. Caricom could then find itself in the situation where it is forced to shorten the EPA’s 25-year liberalisation schedule; and to reduce or eliminate the EPA’s 13 percent ‘Exclusion List’; in order to bring about conformity with the Caricom-Canada FTA. Certain flexibilities now provided in the EPA could also be liable to amendment in a manner unfavourable to Caricom.

Furthermore, a Caricom-Canada FTA will increase the pressure on the U.S. Administration to terminate the non-reciprocal duty-free treatment granted Caricom under the CBI and enhanced CBI arrangements, and to replace it with a Caricom-U.S. FTA. Hence, the ‘domino effect’ of

EPA/FTAs with Europe, Canada and the United States is that Caricom could end up with a large part of regional imports becoming duty-free in 10-15 years. This would have major revenue implications for several Caricom countries, for the CSME, and for the ability to foster local and regional agricultural and industrial development through tariff protection and other policies favouring regional producers.

Is this a feasible path to development? Are we going down that road because we are genuinely convinced, based on sound research and sober contemplation, that this is a path towards equitable and sustainable development; or merely as a result of a series of ad hoc, defensive actions taken in response to demands from major trading partners and pressure from a small group of business interests who wish to protect existing access or believe—perhaps mistakenly—that there are some export opportunities that there are theirs for the taking?

Are we content to see the CSME and the Single Development Vision become the latest casualties to Caricom's 'implementation deficit' and to a new round of economic colonisation of our region?

Is it not time to convene a regional multi-stakeholder Conference on putting the Vision and the CSME back on track and on the role of external trade policy—EPA, Canada, USA and South-South trade in development strategy of the region?

Allow me to conclude by leaving those questions with you. I thank you for your kind attention

COUNTRY	% and timing of imports to be liberalised						
	0	5Y	10 Y	15 Y	20Y	25Y	EXC
ANTIGUA / BARBUDA	7	7	25	35	2	2	22
BAHAMAS	32	2	13	34	3	2	13
BARBADOS	48	0	2	24	1	1	23
BELIZE	13	6	10	27	1	3	39
DOMINICA	17	3	18	27	2	1	27
DOMINICAN REPUBLIC	53	8	5	21	3	5	5
GRENADA	9	14	20	25	2	3	28
GUYANA	53	1	7	18	2	1	18
HAITI	60	0	1	7	2	4	27
JAMAICA	56	0	1	26	2	1	13
ST. KITTS AND NEVIS	18	16	16	17	2	2	29
ST. LUCIA	38	0	4	22	5	2	29
ST. VINCENT/GREN	8	7	14	30	2	2	37
SURINAME	9	9	20	27	2	3	28
TRINIDAD/TOBAGO	73	0	1	18	0	1	6
CARIFORUM	53	3	5	22	2	2	13

## **Comments on the Report by CAPRI entitled “Long Term Impact of the EPA on the Jamaican Economy”**

By Havelock R. Brewster

The Caribbean Policy Research Institute (CAPRI), a group located in Kingston, Jamaica, has prepared, with the financial support from the UK government (DFID), a study that claims to evaluate “the long term impact” of the EPA on the Jamaican Economy”.

It used what is called a computable general equilibrium model to determine the impact on Jamaica imports from the EU of the agreed import tariff reduction (elimination) in a 25-year bullet simulation.

(1) The main conclusions are that:

(a) The increase in EU imports into Jamaica would be negligible- 1.5 % of total imports, two-thirds of which in any case would represent diversion of imports from non-EU sources. The biggest percentage impact would be on agriculture produce (40 %) but its impact is near-insignificant, given that the EU share of total agriculture imports is merely 5 %.

(2) The fiscal impact – the net loss of indirect tax revenue from the liberalization of trade with the EU would be equivalent only to less than 3 % of total indirect tax revenue, i.e. an addition of 0.4 % to the present fiscal deficit, or a one percentage point increase in the VAT, if the loss is recouped from that source only.

(3) There would be an increase in (total factor) productivity in such service industries as tourism, financial services, communications, and business services of a size that would raise the level of GDP by 2.7 %, thereby far exceeding the insignificant losses on the imports side and of tax revenue.

As we well know, the results of these econometric exercises are only as good as the conception of the question raised, the data used, the assumptions made, the reliability of the coefficients used ( such as demand and supply price elasticities, input-output ratios, capital-output ratios, etc), and even more daunting the dynamic predictability of the variables used. Although it has not been possible for me to examine the model in all its details- nor did I think that it would have been worthwhile to do so, as the overall results are insignificant- I would place very little faith in the conclusions derived from these models, given what I know of the state and quality of Caribbean data, and the notorious unpredictability, especially over a period as long as 25 years, of the variables that have to be used.

I say insignificant results because (a) conclusions (1) and (2) above , insignificant in themselves, are not implausible, given the volume and structure of Jamaica's imports from the EU; (b) conclusion (3) which claims to more than offset the small negative import and fiscal effects, is based, so far as Jamaica is concerned, on an assumption which is little more than pulled out of the air, the interpretation of which moreover is ambiguous, and surely cannot be taken seriously; and (c) most crucial of all, the most important impacts, or non-impacts, are not at all addressed. The claim that this is a study of the long term impact of the EPA on Jamaica is an egregious exaggeration that is unacceptable. It is simply, and nothing more than, an attempt to quantify the possible increase in Jamaican imports from the EU due to liberalizing (eliminating) tariffs on imports from the EU, and of the possible loss of tax revenue attributable thereto.

Jamaica obtains only about 23 % of its total imports from the EU; tariffs are already quite low, concentrated on product-groups like vehicles and equipment that Jamaica does not, and is unlikely to, produce, and inevitably part of the increase in imports from the EU will be due to trade diversion from the rest-of-the-world (ROW), including from CARICOM, rather than to the replacement of domestic Jamaican production. Any straightforward extrapolation of those facts would lead to the sort of conclusions CAPRI has come to. Over the next 25 years there would of course be trade liberalizations with other trading partners, and through further rounds of WTO MTNs, all of which would compound the results obtained for the EU. Moreover, it says nothing about the non-impact on the hoped-for, and most critically needed, diversification of production, and of exports to the EU and the ROW, something that the various forms of restriction on Jamaican policy-space written into the EPA would ensure. As the authors themselves say ‘the modeling framework is static and does not have the capacity for endogenous growth effects’.

The productivity effect on increasing GDP is, as already mentioned, little more than speculation. And this speculation has the basic overall conclusion of the study riding precariously on its back. Moreover, it seems to be assumed that EU (and ROW) productivity will remain static as Jamaica’s advances, so that the competitiveness of Jamaica’s production and export of services will improve relatively to the EU’s (and the ROW’s), over a long 25-years period, and they will thus grow over and above what they would otherwise be. Nothing may be further from the truth. In this dynamic setting, Jamaica is more than likely to be outperformed by the EU (and the ROW). In addition, to the extent that total factor productivity will grow, it is likely to be due to a substantial, if not a major, component of labor-saving productivity growth- which would mean more unemployment in an already high unemployment economy. The net result could be that phenomenon well known to primary commodities of higher productivity and higher output, with static or declining market share, and real export earnings.

Finally, the more substantial development effects- which are the principal aims of CARICOM, and supposedly of the EPA- are not at all addressed. They include those related to:

- diversification of domestic production, and the effect limitations of policy space ( constraints on trade policy, MFNs, etc) would have on this;
- expansion and diversification of exports of goods and of services to the EU;
- food security;
- the terms of trade effect;
- inflows of new direct EU investments and transfers of technology over and above what would otherwise be the case;
- increased inflows of development assistance in real terms above the present levels;
- government procurement- both import and export effects;
- energy and infrastructure;
- human development, gender, and poverty.

Washington DC

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