The GraceKennedy Foundation Lecture, 2008

# GLOBALIZATION: EVERYTHING BUT ALMS
## The EPA and Economic Development

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The GraceKennedy Foundation

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**Contents**

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2. To establish and carry on programmes for the development of education and skills of people in Jamaica;
3. To develop programmes aimed at the upliftment of the spiritual well-being of individuals.

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## The GraceKennedy Foundation Lectures

Since 1989, the annual GraceKennedy Lecture has highlighted issues of social and economic concern. This year's Lecture continues that tradition as it spotlights the issues of trade and aid, through its examination of the Economic Partnership Agreement (EPA) with the European Community (EC).

The Lecture points to the urgency of the need to find creative ways of meeting the challenges posed by globalization and the economic policies of CARICOM states. We hope that it will result in a greater understanding of the nature of the world economic situation in which we must operate as well as the implications for the region's future of these issues. The opportunities provided by the EPA are also presented in the Lecture and these advantages must be acted upon if the economies of Caribbean states are to improve.

The Foundation hopes that by providing copies of this lecture to schools and public libraries the Lecture's reach will extend beyond those present at its delivery. We welcome and look forward to your comments.

Patricia Robinson
Secretary/Executive Director
GRACEKENNEDY FOUNDATION

## GraceKennedy Foundation Lecture, 2008

The GraceKennedy Foundation is honoured to have as its 2008 lecturer Ambassador the Honourable Dr Richard L. Bernal, OJ. A professional economist with over 30 years of experience, Dr Bernal presently serves as Director-General of the Caribbean Regional Negotiating Machinery (RNM). The RNM has responsibility for trade negotiations for the member states of the Caribbean Community (CARICOM) and provides technical support to Cuba and the Dominican Republic. Currently, the RNM is involved with negotiations in the World Trade Organization (WTO) and CARICOM's bilateral negotiations such as those with Canada.

As Director-General, he provides overall direction to the RNM, which undertakes analytical reports, technical studies and strategy papers, providing advice on external trade policy and trade negotiations to member states and information to stakeholders in the business community and civil society. He is the principal adviser to ministers of trade and prime ministers of the CARICOM countries on external trade negotiations and was Principal Negotiator for the Forum of Caribbean States (CARIFORUM) in the negotiations, which led to the CARIFORUM-European Union Economic Partnership Agreement (EPA).

Since the late 1980s, Ambassador Bernal has been lead negotiator in numerous negotiations on behalf of Jamaica and CARICOM including agreements on investment, intellectual property rights, textiles and apparel, trade agreements, debt reduction agreements and loans from multilateral financial institutions (IMF, World Bank, and IADB). He was also CARICOM's lead negotiator in the Free Trade Area of the Americas (FTAA) negotiations.

Dr Bernal was Jamaica's Ambassador to the United States of America and Permanent Representative to the Organisation of

American States (OAS) for the period May 6, 1991 to August 31, 2001. When he demitted office after 10 ½ years, he was the fourth most senior Ambassador in Washington D.C. and Dean of the Caribbean Diplomatic Corps. His wide-ranging duties included lobbying the US Congress on trade legislation, the US-EU banana dispute and foreign aid for the Caribbean. Dr Bernal has given testimonies to several Committees of Congress (House and Senate) on issues of concern to the Caribbean such as aid, NAFTA and the Caribbean Basin Initiative. At the OAS he chaired its highest body, the Permanent Council, as well as committees on hemispheric trade, the Summit of the Americas and the Enterprise for the Americas Initiative. His tenure culminated in him becoming the most senior Ambassador.

Prior to his diplomatic posting he was Chief Executive Officer of a commercial bank with merchant bank and trust company subsidiaries, a nationwide branch network and a staff of 400. He has served in various capacities in the Departments of Research and Exchange Control of the Bank of Jamaica (central bank) and the Monetary Studies Programme of The University of the West Indies. He served in the Macroeconomics Division of the Planning Institute/National Planning Agency and as adviser to the Minister of Finance with particular reference to external debt management and stabilization and adjustment policy. On occasion, Dr Bernal has deputised for the Minister of Finance of Jamaica at the IMF, IADB and World Bank and at meetings of the Finance Ministers of the Western Hemisphere.

For seven years he taught international economics and development economics at his alma mater, The University of the West Indies, and remains actively involved in academic and policy discussions, delivering papers, examining dissertations and giving lectures. He is a Senior Associate at the Centre for Strategic International Studies in Washington D.C., and is a member of the

Harvard University Trade Policy Group, the board of directors of the International Trade Law Institute and the editorial committee of *Integration & Trade* (journal of the IADB). He is Honorary Professor at the Sir Arthur Lewis Institute of Social and Economic Studies of The University of the West Indies. He has addressed the Royal Institute of International Affairs, the Joint Assembly of EU-ACP Parliamentarians, the Brookings Institution, the Institute for International Economics, the Inter-American Dialogue, the Heritage Foundation and the Carnegie Endowment for Peace. He has delivered papers at conferences convened by the WTO, the World Bank, the IADB, the IMF and the American Bar Association.

Dr Bernal has published over 100 articles in scholarly journals, books and monographs (some available at richardbernal.net). He has also authored articles in financial periodicals and newspapers including opinion editorials in the *Washington Post* and *Wall Street Journal*. As a spokesperson on international economic issues and economic policy in developing countries, he has been interviewed by the BBC, the Voice of America, National Public Radio, Jim Lehrer NewsHour and CNN and has been quoted by the *Wall Street Journal*, *Washington Post*, *New York Times*, *Miami Herald*, *Washington Times*, *Inside US Trade* and the *Economist* magazine.

In terms of the GraceKennedy Lecture for 2008, the fact that he is credited with introducing to trade negotiations and international trade policy the need to take account of the special circumstance of small developing economies is of special interest. Through his advocacy and publications he effectively advanced policy in this area as the first chair of the Working Group on Small Economies of the FTAA and was instrumental in introducing the topic to the WTO and the Doha Development Agenda.

Ambassador Bernal has a proven capacity for building effective partnerships which is evident in his long association and involvement as an adviser to trade unions, NGOs, credit unions, consumer organizations, churches and business associations such as chambers of commerce, exporters, manufacturers, farmers and bankers.

He is one of the 50 Distinguished Graduates of The University of the West Indies and also studied at the University of Pennsylvania, the New School for Social Research and the School for Advanced International Studies of Johns Hopkins University. He holds the degrees of B.Sc., M.A., Ph.D. (Economics), and MIPP (International Public Policy).

As of July 1, 2008, he will be the alternate Executive Director for the Caribbean in the Inter-American Development Bank.

Richard L. Bernal is a Jamaican by birth and citizenship and the Order of Jamaica takes pride of place among several honours he has received.

The GraceKennedy Foundation eagerly anticipates his 2008 lecture.

*Richard L. Bernal*

# THE LECTURE

# INTRODUCTION

The importance of the Economic Partnership Agreement (EPA) between the European Community (EC) and CARIFORUM[1] states derives from the following: (1) its scope is unprecedented in an agreement between developed countries and developing countries; (2) it is a trade agreement supported by development assistance, a fact that differentiates it from other free trade agreements; (3) its objectives go beyond the expansion of trade to specifically target sustainable economic development, the progressive integration of the CARIFORUM countries into the world economy and the elimination of poverty, and (4) because of its unique combination of trade and development measures it can become a model for agreements between the EC and other African, Caribbean and Pacific regions and indeed, between developed and developing countries.

The overarching objective of the CARIFORUM-EC EPA is the promotion of sustainable economic development. All concerned with the EPA must disabuse themselves of the notion of an EPA that contains a development dimension because such a characterization does not sufficiently recognize the centrality of economic development in the EPA. Instead, it must be appreciated that development infuses all aspects of the EPA. The components of meaningful sustainable economic development are given clear expression in an overarching chapter on development, which provides a holistic framework for the subject-specific measure in subsequent chapters.

The Caribbean is in a particularly difficult economic situation that requires urgent, creative and decisive action. The challenging

* The views expressed in this paper are those of the author and not necessarily those of the Caribbean Regional Negotiating Machinery and the CARIFORUM states.

circumstances confronting the region emanate partly from the profound changes inherent in globalization and the ossification of economic policy in CARICOM member states. As a result, many countries have been forced into reactive and *ad hoc* adjustment when they should have been proactively pursuing strategies of economic transformation that anticipate and seize opportunities emerging in the global economy.

CARIFORUM (the Caribbean Forum of African Caribbean and Pacific States) was created in 1992 to facilitate the channelling of European Development Fund resources to all the Caribbean states party to the Lome IV convention, upon the accession of Haiti and the Dominican Republic to that Convention. Because these two states were not members of CARICOM at the time, CARIFORUM was designed to be the regional umbrella under which the Caribbean Lomé Convention states would interface with the EC. CARIFORUM became the negotiating interface with the EC during the EPA negotiations as a result of the EC's decision that it would negotiate EPAs not at the all ACP level but with various regional groupings so as to ensure that the concluded agreements led to the further strengthening of regional integration initiatives.

# I

## TRADE AGREEMENTS

Globalization involves the reduction and/or elimination of national barriers to the global movement of goods, services, technology and capital. It is not possible to avoid contact and participation in the global economy. No one consumer or producer in developed or developing countries, large or small, could operate if they were insulated from globalization. Life as we know it would be impossible without international trade. For example, without the foreign exchange earned from the export of goods and services, CARIFORUM countries could not import the oil necessary for electricity generation and modern transportation. Isolation is therefore not an option. Nor does free trade exist outside of economics textbooks and hence neither autarky nor free trade is a realistic option. Globalization is a reality that poses both challenges and opportunities. It can generate growth and development but it can also contribute to economic marginalization and poverty. The impact of globalization on countries depends on their own efforts and the terms and conditions that govern their participation in the global economy. One means of influencing the conditions of involvement in the global economy is through the negotiation of trade agreements at the multilateral and regional levels.

The attempt to formulate rules to regulate the operation of an increasingly globalized world economy involves the negotiation of trade agreements at the multilateral level in the World Trade Organization (WTO) and a plethora of regional and plurilateral agreements.[2] The coverage of trade agreements has expanded in recent years in an attempt to encompass as much as possible of international transactions in type and volume. Today the connotation of the word "trade" is no longer simply the international exchange of goods. Trade encompasses goods, services and investment as well as the policy measures that constitute the national environment in which trade is conducted, that is, competition policy, labour standards and intellectual property rights.

The objective of trade agreements is to increase economic growth by the expansion of trade and capital flows. The objective of negotiating trade agreements for developing countries such as those in the Caribbean is to promote economic development. For developing countries, trade agreements mediate the encounter with globalization and offset the power of developed countries by codifying the rules of engagement for international trade.

### A. Why CARIFORUM Countries Need Trade Agreements

Small developing economies like those of the CARIFORUM states are highly open, which means that international trade is extremely important to the operation of the economy. Exports constitute a very large share of total production and the import content of every good and service is extremely high.

Nearly all countries, developed and developing, are competing with each other to get the best access to the markets of as many countries as possible. If the countries of the CARICOM region do not conclude trade agreements they will be at a disadvantage and the extent of this disadvantage will increase as other countries sign trade agreements. In the absence of progress in multilateral trade liberalization, bilateral trade agreements are the only way that countries can improve their access to external markets.

It is becoming increasingly difficult to persuade developed countries to grant non-reciprocal preferential trade arrangements such as the former Lomé Conventions and the current Caribbean Basin Initiative (CBI) and CARIBCAN. The developed countries that dominate international affairs are pushing for free trade agreements that are based on reciprocity. This is evident in positions advocated in the WTO and in their bilateral trade negotiations. An increasing number of developing countries are equally hesitant or averse to the extension of preferences under arrangements from which they do not benefit or which they perceive as a threat to their own interests either in the countries granting the preferences or in third-country markets.

### B. Why Negotiate an EPA with the EC?

The preferential trade provisions which were provided by successive Lomé Conventions were carried over into trade provisions of the Cotonou Agreement as a transitional arrangement ending December 31, 2007. These trade provisions had to be replaced by a WTO-compatible trade agreement and this is the EPA.

The region wanted a trade agreement with the EC because it is a major economic bloc of 450 million people, which has traditionally been a significant trade partner. The EC has been a critically important export market and a source of essential imports and has the potential to be a major source of foreign investment and a continuing source of development assistance. Indeed, one of the attractive aspects of the EPA was that the EC had pledged to furnish development aid to assist with the costs of adjustment and implementation.

The CARIFORUM countries needed to avoid having less favourable market access than other developing countries from Africa and the Pacific that produce and export similar products such as sugar and bananas. The least developed countries of Africa and the Pacific already benefit from duty free, quota free access and would therefore have been in a more advantageous position than CARIFORUM if no EPA agreement between the CARIFORUM region and the EC was concluded.

The EPA was the priority because various political and other factors subsequent to the signing of the Cotonou agreement militated against proceeding with negotiations on the other trade agreements in which the region had an interest. In particular, negotiations with other major trade partners was not an option at that time for the following reasons: (a) The Bush administration in the USA did not have trade promotion authority which lapsed in 2007, restricting the ability of the Administration to negotiate trade agreements. In addition, they had indicated unequivocally that any trade agreement would have to be a free trade agreement with CAFTA being the almost immutable template. The CARICOM countries felt the requirements of a CAFTA-type agreement would be too onerous while the Dominican Republic opted to join CAFTA. (b) Negotiations with Canada were scheduled to start in earnest early in 2008. (c) The current round of negotiations in the WTO, designated the Doha Development Agenda, with the intention of addressing the issues of concern to the developing countries, had been stalled for some time. The WTO negotiations had degenerated into a political quagmire primarily because of the failure of the developed countries to compromise on key issues, in particular subsidies and domestic support in agriculture. Developing countries had also been resistant to concluding an agreement that would not adequately address their concerns and which would have required them to make significant cuts in industrial tariffs with little movement on domestic support by the developed countries.

The political circumstances that allowed the preferential arrangements which were the core of the Lomé Conventions and the Cotonou Agreement had changed dramatically. By the time the Cotonou Agreement was being concluded circumstances were such that the EC and the ACP accepted the concept of WTO-compatible trade arrangements. The receptivity to preferential trade agreements subsequently deteriorated as was graphically illustrated by the erosion of the EC sugar and banana regimes at the behest of developing country members of the WTO. Therefore, achieving the EPA was fundamental to CARIFORUM's interests in repositioning their economies in a new global context. In light of those considerations, CARIFORUM states, since the inception of the EPA negotiation process some five years ago, had been systematically engaged in a calculated exercise to capitalize on the opportunity to construct a new trading relationship with Europe to promote the sustainable development of CARIFORUM, including the strengthening of regional integration.

# II

## FACING REALITY

A proper understanding of the EPA must be firmly located in an understanding of the reality in which the negotiations were conducted. It must also be recorded that attitudes to the realities outlined below and the need to change ranged from frank acceptance to outright denial. Unfortunately, too many were concentrated towards the denial end of the spectrum and this was manifested in anger and inflexibility. Ironically, for countries that have overachieved in every field of human endeavour there was deep-seated lack of confidence about the ability to compete in the global economy. A psychology of doubt prevailed in some quarters, which was reflected in demands for protectionism, permanent non-reciprocity and development assistance. Brewster and Thomas speak of "the claustrophobia of size"[3] which is rooted both in history and in contemporary reality.

### 1. No Aid Entitlement

> *"Aid should be thought of as a hand up, not a hand out",* Human Development Report, 2005.

Being a small developing country does not entitle the governments in these countries to development assistance in the form of grants. In the CARICOM region there are many who regard this as a God-given right in perpetuity. This is seen as reparation for colonial exploitation and there is much that is valid and just about this proposition. This conviction is pandemic in the NGO community and prevalent in academia. It takes the form of a mixture of a sense of entitlement and a perceived need among some in the political leadership and among senior officials. There is a real need for resources to fund some of the costs of adjustment indeed, as much of this cost as possible, and hence there is a valid case for EC development assistance but no entitlement. Prime Minister Golding of Jamaica has repudiated this attitude and called on the region to "purge this mendicancy".[4]

Trade agreements are not usually accompanied by development assistance even in the case of agreements between developed and developing countries. It is a tribute to CARIFORUM diplomacy and negotiations that development aid has been extracted from the EC, given the disappearance of the last residues of colonial guilt in European political and policy circles. The justification is increasingly difficult to sustain for many middle-income countries have achieved high per capita incomes and impressive growth rates despite their small size and vulnerability. Nevertheless, the EC is the largest source of development assistance to the region.

**2. It is Trade, Not Aid**

While for many in the CARICOM region foreign aid is regarded as an essential ingredient for economic growth, there has been a debate over the impact of aid. Over the last 50 years there has been no resolution between the opposite positions of (a) aid has a positive relationship with growth[5], and (b) it does not necessarily benefit the recipient countries and in many instances has a negative effect. It has been suggested that aid can undermine institutional quality and encourage rent seeking and corruption.[6] Some studies find either positive or negative effects of aid on growth[7] and some proffer sage advice that "aid has a positive impact on growth in developing countries with good fiscal, monetary and trade policies but has little effect in the presence of poor policies".[8] There is a "slightly positive correlation between net financial flows and economic growth" in the Caribbean[9] therefore it is reasonable to assume that development assistance can have a positive impact on growth. The strength of the correlation varies among countries in the region, no doubt reflecting the fact that domestic policy and governance influences the efficiency with which aid is translated into growth.[10] But perhaps more importantly, foreign aid can be habit-forming and there are many in the Caribbean who have become addicted.

The primary purpose of the EPA is not the provision of development aid. It is a trade agreement complemented by development assistance aimed at helping countries to implement the EPA. The EPA is everything but alms; that is, it encompasses a wide range of subjects but is not an instrument for meeting every conceivable project related to any aspect of development. In an expansive interpretation of the EPA everything, regardless of how tangential, is affected by and affects everything. This is patently untenable. The development assistance which accompanies the EPA is not meant to substitute the existing aid that the EC has committed to provide for the region. It relates specifically to the adjustment in policy instruments and institution arrangements which emanate from the implementation of the EPA.

The value of the EPA to the economic development of the CARIFORUM economies must not be judged by the amount of EC development assistance that accompanies the EPA. No amount of EC development assistance provided over however many years would satisfy the wants of some persons in the region.

### 3. Negotiation, Not Supplication

What took place between April 2004 and December 2007 was unprecedented in the history of the relationship between the EC and the Caribbean. What took place was a negotiation between two parties seeking to achieve their respective interests. It was not supplication of ex-colonies to their former colonial masters for aid and preferential quotas and prices. This was not the diplomacy of mendicancy but hard bargaining to extract every gain from a group of more powerful countries with little real need for CARIFORUM markets, most especially the minute CARICOM markets. The negotiations involved give and take on both sides with neither party getting everything that it aimed for or wished for. This is the nature of negotiations. The CARIFORUM countries did not, in the words of President John F. Kennedy, negotiate from fear nor did they fear to negotiate.

**4. Liberalization Is Not Inherently Harmful**

There is nothing inherently harmful about liberalization especially if it is spread over periods that are adequate to allow fiscal and economic adjustments. Trade liberalization, when properly sequenced and appropriately calibrated to allow firms adequate time for adjustment, can promote economic growth. The EPA provides for tariff liberalization to be extended for some products for a period of up to 25 years – an unprecedented concession in any trade agreement. An intelligent debate about the EPA has not emerged in the CARICOM countries because many are in denial about the practical realities of existence in the real world with the result that discussion has and continues to be mired in rhetoric and emotion. Misleading commentary opposed to any form of trade liberalization has emanated from the anti-globalizers, those who have never had any practical experience in trade negotiations, those who confuse autarky with a self-reliant development strategy, those in wilful ignorance about globalization and those in denial about the erosion of preferential trade arrangements. These people are as dangerous to sound and realistic public policy as those at the other extreme of the continuum, namely the fundamentalist advocates of free trade. Both ideologies have little connection with reality and have even less to contribute to changing reality in a manner that promotes economic development.

In a world economy experiencing rapid and profound globalization, a certain amount of trade liberalization is unavoidable. But why avoid liberalization or try to postpone any liberalization indefinitely? Trade liberalization, when properly designed and implemented in a manner that adequately takes account of structural and institutional characteristics, can boost economic growth and promote economic development. The literature on the relationship between trade liberalization and economic growth reveals that liberalization does not guarantee that growth.[11] Trade liberalization can promote growth if it is formulated and executed in a way that is appropriate to a specific economy and does not function in isolation. Liberalization can best come to fruition if it is complemented by suitable macroeconomic policies. The policy package will be unique to each particular economy. While there are certain broad policies which are essential to any policy framework, the mix has to be calibrated to the peculiar circumstances of each economy.

For the EPA to promote the economic development of the CARIFORUM states it must be complemented by (a) speeding up of the flagging and frequently postponed process of establishing the CARICOM Single Market and Economy (CSME); (b) completing the CARICOM-Dominican Republic Free Trade Agreement; and (c) appropriate national development policies including fiscal reform. Fiscal reform will be necessary to replace the revenue loss from reducing or eliminating tariffs by shifting the derivation of revenue to other forms of taxation, for example, sales tax. There does not have to be any loss of revenue because it is possible to extract the same amount of tax revenue from the economy by using alternative forms of taxation. The exercise is complicated by the fact that several countries face difficult fiscal situations. Part of this difficulty is the burden of servicing their external debt. Seven of the ten most indebted countries in the world are Caribbean countries.[12]

The EPA will expand trade between a group of mostly developed countries and a group of small, developing economies. Rather than posing difficulties this combination is good for growth. Developing countries benefit from trade agreements with industrial countries and fast growing trading partners.[13] If developing economies can plug into the dynamic of the global economy it can spur their economic growth. World trade has grown five times in real terms since 1980, and its share of world GDP has risen from 36 per cent to 55 per cent during this period.[14]

### 5. Erosion of Preferential Trade Arrangements

Post-colonial trade arrangements are at an end, globalization is a reality and the vast majority of EC member states feel no compunction to provide one-way preferential trade arrangements or development aid to a group of middle-income developing countries. These EC countries have no colonial history to live down and believe that if they provide aid it should target extreme poverty in Africa and Asia.

Even if the EC wanted to keep in place non-reciprocal preferential trade arrangements for the ACP countries it would have to contend with the current disposition in the WTO, which is resolutely opposed to such arrangements. Moreover, the prevailing state of mind is to dismantle non-reciprocal preferential trade arrangements. This conviction is no longer confined to the increasingly unsympathetic developed countries but is rampant among developing countries spawned by desperation, evangelical free trade beliefs or churlishness. It was developing countries that forced the scaling down and/or elimination of the EC special regimes for the importation of bananas and sugar. The charge was led by the Latin American countries aided and abetted by the USA in the case of bananas and by an advanced developing country, Brazil, which frequently professes its solidarity with Caribbean countries. This led to the downgrading of the Banana Protocol and the announced discontinuation of the Sugar Protocol associated with the Lomé Conventions and more recently the Cotonou Agreement. There were undoubtedly some sentiments in the EC that were pleased to see the withering away of a system in which they had no vested interest or lingering responsibilities.

## 6. Switching the Trade-led Development Model

Inherent in the Lomé Conventions and the Cotonou Agreement was a trade-led development model based on special and differential treatment in the form of preferential access to the EC market. In the case of bananas and sugar, preferential arrangements took the form of a quota system and special price mechanisms for sugar. Special and differential treatment in the form of non-reciprocal preferences has been subjected to severe and sustained attack aimed at discrediting it as a mechanism of development assistance. The result of the withering intellectual and political assault has been the growing and increasingly resolute resistance among the WTO membership to permitting the continuation of preferential trade arrangements. It is a serious error and has engineered the erosion of these schemes. Preferential trade arrangements are a superior type of aid mechanism than transfers of funds to government sector projects because the beneficiaries are individual farmers or firms that earned through production rather than through handouts. These arrangements were comfortably accommodated by the affluent consumers in the developed countries who neither noticed nor cared very much about the price of bananas. Aid in the traditional forms and the "aid for trade" initiatives are not a substitute for the aid through non-reciprocal preferential trade arrangements because their impact on the receiving economies is very different.

The EPA, while not being fully reciprocal, does move away from preferences and therefore what it proffers is the opportunity to export to the 450 million EC market duty free and quota free.

To date, this is preferential access shared with the least developed countries, which trade under the EC's everything but arms initiative and ACP countries that have signed interim agreements. The extent to which CARIFORUM gains from this market access depends on the international competitiveness of its products vis-à-vis the ACP producers and, to a lesser extent, the rest of the world. The trade-led model which underlies the EPA is market driven instead of the previously available arrangements, which centred on the management of the market.

# III

## CHANGED EXTERNAL CIRCUMSTANCES

### *A. Globalization*

The external economic environment in which the developing countries have operated has changed adversely and dramatically, reflecting both trends in globalization and changes in the policy of developed countries toward developing countries. The future is not what it was[15] a decade ago when the CARICOM countries had non-reciprocal preferential trade arrangements and development assistance was still viewed in the developed countries as an essential ingredient in the development process. The main features of globalization are:

#### 1. Intensification of Globalization

The multi-dimensional process of globalization is rapidly transforming in profound ways all aspects of national and global activities and interactions. The pace, character and extent of the economic, social and political dimensions of globalization may vary across sectors and local circumstances but its economic thrust is the erosion or elimination of national barriers to the international flow of goods, services, capital, finance and information. The rate of growth of world trade has exceeded that of output during the last 50 years.[16] During the period 1950 to 1994 the volume of world trade grew at a rate of 1.6 times faster than that of world production and outstripped world production at an increasing rate, moving up from 1.2 during the 1970s to 2.8 in the 1980s.[17] World output grew by 2.7 per cent during the years 1981 and 1990 compared to a growth rate of 4.5 per cent per annum for world trade[18] and between 1991–2000, world GDP increased by 2.6 per cent per annum while world merchandise trade increased by approximately 7.0 per annum.[19] The ratio of world trade in goods and services to output now stands at 22 per cent, having increased from 7 per cent in 1950.[20] In the last 30 years flows of direct foreign investment have grown at rates in excess of those at which international trade and world output have expanded.[21]

National markets are increasingly coalescing into global markets because their operations are subsumed by global factors. Every business, whether producing for the national or the world market, must become globally competitive, either to be able to export or to withstand competition from imports. The competition is no longer local, it is global in fact, and competition knows no boundaries.[22] For example, in the United States, the country with the largest domestic market, over 70 per cent of domestic production is now exposed to international competition compared to only 4 per cent in the 1960s.[23]

## 2. Growth of Services

Services are the fastest growing component of the world economy. Indeed, during the 1990s services export of developing countries grew more rapidly than the export of manufactured goods.[24] The average annual growth in trade commercial services between 1990 and 2000 was 7 per cent, compared to 6 per cent for merchandise trade.[25] The overall share of services in total trade amounted to

22.2 per cent in 1993 (up from 17 per cent in 1980) and service industries accounted for 50 to 60 per cent of total foreign direct investment flows.[26] Furthermore, services account for 65 per cent of GDP in high-income countries and between 38 per cent of GDP in low-income countries.[27] In the United States, services generate 72 per cent of GDP, 30 per cent of US exports[28] and 75 per cent of total employment.[29] In Great Britain and Switzerland, exports of services exceeds the export of goods. Services account for 50 per cent of the GDP of developing countries.[30] Services constitute the most important sector in several small developing economies such as the Bahamas and the Cayman Islands (tourism/financial services) and Barbados and Antigua (tourism).

### 3. Increased International Competition

As national barriers to international transactions are reduced or overcome, the global marketplace is characterized by an inexorable increase in the extent and intensity of international competition. Coping with exposure to more international competition has posed severe challenges to all countries but more so to developing countries and in particular the least developed. Competition in global markets has intensified among firms and countries as the world economy becomes more integrated. The implication of global competition is that even goods and services that are produced and exchanged within the national markets have to meet standards of quality and costs of production that are available globally. The fusion of computer technology with telecommunications makes it possible for firms to relocate an ever-widening range of operations and functions to wherever cost-competitive labour, assets and infrastructure are available. These technological developments have transformed organization structures, the nature of work and the character of products, production techniques and international marketing. Indeed, the "death of distance" has revolutionized the way people live and work[31] as speed and availability of information have grown exponentially in an "age of globally networked intelligence".[32]

### 4. Exponential Rate of Technological Change

There has been rapid technological change and profound new technological innovations which impact on the production possibilities of all countries and perhaps more so the options open to small developing countries. The implications in some circumstances are negative as they portend changes which may be difficult for the nano-firms[33] of small developing economies. In other instances, new technology has opened up opportunities previously prohibited by the inability to attain economies of scale. The increasing globalization of economic transactions and activities has been facilitated and in some instances impelled by the rapid development of new technologies of communications, informatics and manufacturing. The new developments in information processing and telecommunications propel globalization by reducing the costs resulting from distance, the importance of location and the advantages of large size.[34] The expansion in the use of electronic technology has altered fundamentally the conduct of financial services, telecommunications, entertainment and various other services and is projected to grow exponentially.[35] New technologies have considerably reduced transaction time and in some instances eliminated the constraints of geography and distance, thereby creating 24-hour trading. These trends are compounded by the reduction in time between conceptualization and production. In this environment the "mindset must be speed".[36]

## *B. Policy Changes*

There has been a pronounced decline in empathy in the developed countries for the plight of developing countries coinciding with the rise to prominence of economic liberalism. The decline in empathy has manifested itself in the dismantling of preferential trade arrangements, the reduction of development assistance in real terms and the forced graduation of middle-income developing countries from eligibility for concessional lending, grants and certain trade concessions, such as the Generalized System of Preferences (GSP). Barbados and Antigua and Barbuda have been graduated from certain facilities.

### 1. Dismantling Preferences

The pressure on developed countries to dismantle preferential trade arrangements for developing economies dates back to the 1950s and has steadily escalated.[37] Developed countries have shifted away from the belief that special and differential treatment can boost economic growth and development in poor countries. They strongly advocate reciprocity as the most fecund foundation for development, conveniently overlooking their own long experience of economic gestation and maturation through the employment of developmental protectionism.[38] The prevailing argument is, why should the consumers of any country pay a higher price for a product than that available from the least expensive source? Increasingly, the answer is that there is no rationale for paying higher prices. This sentiment is growing in strength in both developed and developing countries. Consumers in the EC see no justification for preferences as development assistance except for the least developed countries.

### 2. Development Assistance

The declining empathy in developed countries for the plight of developing countries is evident in the fact that they have consistently failed to meet the agreed minimum aid targets. According to the 2006 Human Development Report, "In the

36 years since the Pearson report there has been no shortage of commitments to the 0.7% target. But rich countries have habitually failed to back promises with actions. Aid flows were at an all-time low in 1997 when the figure was 0.22% and it was not until 2002 that aid levels surpassed the 1990 level".[39] The decline in resources available to middle-income developing countries such as those in the Caribbean has been particularly pronounced. There have been proposals to "graduate" some of these countries from eligibility for access to certain facilities on the pretext that their per capita incomes are indicative of no longer needing aid.

# IV

## NEGOTIATIONS

> *"Change is the law of life. And those who look only to the past or the present are certain to miss the future."* John. F. Kennedy

### *A. Formulation and Execution of Negotiating Positions*

The CARIFORUM region, despite its size and financial constraints, deployed a world-class team of negotiators utilizing the technical advice of the Regional Negotiating Machinery (RNM) and directed by mandates stipulated by the heads of government and supervised by trade ministers. The negotiating positions were formulated by and through a transparent and intensive consultative process involving technical working groups which included participants from governments of member states, regional institutions, the private sector, academia and civil society. The process also drew on specialized expertise from international institutions such as the WTO, IADB and the World Bank.

The CARIFORUM Heads of Government were at the apex of the structure of negotiations and they provided mandates to the trade ministers who in turn provided political guidance and oversight of the negotiations. The actual technical negotiations were undertaken by a team of trade experts drawn on merit from all member states and diverse professional backgrounds. They were superintended and guided by a Principal Negotiator working in close collaboration with the minister responsible for EPA negotiations who had reference to the Prime Minister in charge of external negotiations.

It is not practical or advisable for every recalibration in negotiations to be shared with all stakeholders. Stakeholders have to make their inputs to their governments and to the RNM and trust the officials, technocrats and negotiators to execute to the best of their ability the task of representing their interests. Some governments allowed private sector participation in their delegations which were headed by government personnel. The negotiators and ministers were responsible and dedicated public servants with the capacity to make a sound judgment about what could be made public and when, and what had to be kept confidential.

### *B. Schedule of Negotiations*

Recent commentary in the media has given the misleading impression that the CARIFORUM countries were forced by the EC to conclude an EPA by the end of 2007. It implied that this put the region's negotiators at a disadvantage and suggested that a more prudent course of action would have been to extend the duration of the negotiations. Its most extreme exposition takes the form of the sound bite "no agreement is better than a bad agreement". This is incorrect and is a disservice to the negotiating structure, the apex of which is the CARIFORUM Heads of Government. The mandate to the negotiators as repeatedly reiterated by the ministers and heads had been to finish the negotiations on the schedule mutually designed and agreed by CARIFORUM and the EC. The rationale of these instructions is that the region would be worse off without an EPA in place on January 1, 2008 and that completion at a later date would put the region in a disadvantageous position.

### *C. Completing Negotiations on Schedule*

The negotiation of an EPA with the European Community was conducted according to the terms of the Cotonou Agreement and the plan and schedule adopted by CARIFORUM and the EC. This mutually agreed schedule was based on a recognition that the EPA negotiations had to be completed in time for the entry into force of the Agreement on January 1, 2008. The reasons for this were:

1. The GATT Article 1 waiver, which allows for the grant of non-reciprocal preference by the EC to the African, Caribbean and Pacific group (ACP) was due to expire on December 31, 2007.

2. If an EPA were not in place by January 1, 2008, the CARIFORUM countries would have had to conduct trade on the basis of the EC's GSP regime, which is less advantageous because its product coverage does not include several important CARIFORUM exports and other exports would have incurred tariffs. Completing the negotiations on schedule allowed the region to avoid operating under the GSP scheme and thereby avoided the adverse implications of that situation.

3. The possibility of extending the duration of the trade component of the Cotonou Agreement has been suggested. However, the WTO waiver, which permitted access to the preferential trade provisions of Cotonou, was set to expire on December 31, 2007. It was not politically feasible to attempt to extract from the WTO membership another waiver or a temporary extension of a WTO waiver for a trade regime that had ceased to exist. To extend the duration of the trade provisions of Cotonou, the ACP and the EC would have had to agree to the establishment of a new protocol to resuscitate the trade regime before a new waiver could be sought. Reaching such an agreement would have involved an extended period of time and it would have been extremely difficult to secure passage except on the basis of reciprocity.

4. Even if the EC and the ACP could have arrived at a template, successfully attaining the waiver would be improbable in an international political environment where other countries, including non-ACP developing countries, have consistently sought to dismantle preferential trade arrangements. Mobilizing adequate international political support for another waiver would have to overcome the objections of a wide range of developed and developing countries. The countries which were still dissatisfied with the redacted EC banana regime would have held the process hostage until the EC lowered even further the tariff on non-ACP bananas. This is predictable because that is what these countries did with the waiver for the Cotonou Agreement.

5. The EC had indicated that countries could sign a less than full EPA and complete the negotiations on a more extended schedule after January 1, 2008. However, this option was only available to those regions which had concluded an agreement on market access for goods (industrial and agricultural). Given that the negotiation on import liberalization by CARIFORUM was the most difficult to complete, why go through this for an Interim Agreement that would cover only trade in goods? This would have entailed the adjustment cost of liberalization without garnering the gains from the inclusion of services, investment and development-boosting measures. The CARIFORUM-EC negotiations were largely settled except for the modalities for import liberalization, the treatment of sugar and the issue of the Most Favoured Nation (MFN) clause. Therefore, the option of a goods-only agreement was not a worthwhile alternative to completing the negotiations for an EPA on schedule.

6. The EC had consistently indicated that they were not prepared to take the risk of trying to persuade the membership of the WTO to grant a new waiver. This was reiterated several times[40] although when in the last quarter of 2007 it became apparent that

most ACP regions would not be able to complete the negotiations for an EPA, they persisted in making the request to the EC. The tactic of a request for a new waiver or a renewal of the waiver was a reflection of the enormity of the task confronting countries, many of them least developed countries, with very limited capacity for negotiation. However, it was in part due also to the suspension of belief that the EC was resolute and the feeling that the diplomacy of mendicancy would triumph once again. Some of the critics, displaying an alarming lack of knowledge of WTO protocol, suggested that CARIFORUM could have and should have requested a new waiver. The fact is that under WTO rules only the preference-granting country can make a request for a waiver for application of the relevant arrangement.

### *D. CARIFORUM's Unique Situation*

While these realities are common to all ACP states alike, the consequences of not having an EPA in place by the end of 2007 would not be the same for all ACP states. Failure to establish an EPA would have inevitably led to the implementation of the EC Generalized System of Preferences in 2008. In the absence of an EPA, African states, most of which are classified as least developed countries (LDCs), would continue to benefit from non-reciprocal preferential access for goods to the European market under the EC's Everything But Arms (EBA) system. From the African perspective, while this level of access may not be considered ideal it could be regarded as satisfactory until an EPA was established. In marked contrast, it is well documented that CARIFORUM states, with the exception of Haiti, which are not classified as LDCs, face no such acceptable alternative under the GSP system. Therefore, for CARIFORUM in particular, the necessity of meeting the deadline for the completion of the EPA was pragmatic and did not emanate from pressure from the EC.

Where there were advantages to be gained the CARIFORUM negotiators at the technical and political levels collaborated with the African, Caribbean and Pacific group of countries. The RNM shared information and technical work with technicians in the ACP countries. This experience revealed areas of common interest and areas of divergence and no amount of diplomacy or romantic allusions to the past will change the fact that there are differences rooted in our respective objective realities.

### *E. Dangers of Delaying Completion of EPA Negotiations*

There were several disadvantages to delaying the completion of the EPA negotiations. They are as follows:

1. An expiry of the waiver would have left the ACP preferential access arrangements unprotected in the WTO and vulnerable to challenge. This would have meant that the region's key commodity exports to the EC – sugar, bananas and rice – would suffer even greater damage than had already been the case. It would have been almost impossible for the EC to accommodate the Cotonou-type preferences under its GSP for the simple reason that, under the WTO rules that make the GSP possible, all developing countries must be treated equally.

2. The EC's GSP would have two effects on the exports of the CARIFORUM countries: (a) A range of products that can be exported by the ACP under the Cotonou arrangements at various levels of tariff preference are excluded altogether. These include sugar, bananas, beef/veal products, citrus, brown rice, aluminium oxide (alumina) and aluminium. (b) Other products would attract a tariff where ACP exports enter duty free. These include fish, crustaceans and mollusks; ornamentals, vegetables, various tropical fruits (including mangoes, guavas and avocadoes), palm oil, various cocoa products including chocolates, tobacco products,

plywood and similar materials, a range of garments and electronic parts for television sets, cameras and other such items. In the case of Trinidad and Tobago, $735 million of exports to the EC would have faced increased tariffs of 2 per cent and 30 per cent. This would have had a serious adverse impact on key exports including methanol, ammonia, aerated beverages and biscuits.[41] Without the EPA the banana industry would implode in some CARICOM countries because their exports would have to compete with products from South and Central America without a preferential tariff. This tariff is provided to ACP producers by the EPA and interim agreements.

3. The implications of an expiry of the Cotonou waiver had to be taken seriously as it was different from the expiry of the CBI waiver. This is because the CBI arrangements have not been the target of legal challenges as has been the case with the EC banana and sugar arrangements. The Latin American banana exporting countries were prepared to challenge the entire set of ACP arrangements when the waiver expired. This would be harmful to the EC and the CARIFORUM countries.

4. The experience of the WTO ministerial meeting in Doha shows that requests for waivers are likely to be attained only by concessions made to other WTO members. In the case of the Cotonou waiver, the EC was forced to give Thailand and the Philippines an additional quota and a 50 per cent reduction in the MFN duty on loin tuna. In addition, the EC had to give commitments on the further liberalization of its banana regime in a way that committed it to returning to dispute settlement in the event that a regime satisfactory to the MFN countries was not put in place by 2006. If another waiver were to be requested, it is not clear what conditionalities would be attached and how deeply these could impact the Caribbean, for example by the Latin American banana exporting countries.

5. It has been suggested that none of the adverse consequences, which would befall CARIFORUM would occur if all the regions decided to delay the completion of the negotiations beyond December 31, 2007. This is not so because of the different circumstances of CARIFORUM and the other regions. Although other ACP regions lag behind in the negotiations, their objective circumstances differ markedly from those of CARIFORUM, in particular due to the fact that the other regions consist mostly of least developed countries that already have the duty free/quota free provisions of the EC's Everything but Arms Initiative, which does not require a WTO waiver.

### *F. Being the First Region to Complete an EPA*

There were clear advantages to being the first region to finish the EPA negotiations. These are listed below.

1. It is no secret that the other ACP regions are much further behind in their negotiations than is CARIFORUM and are not likely to complete the negotiations by the stipulated deadline. The question is frequently asked, what advantage would CARIFORUM gain by maintaining the political commitment to completing the negotiations within the agreed schedule? Some have even suggested that finishing before the other regions would be a disadvantage because the EC could subsequently offer greater concessions to other regions. CARIFORUM must therefore guard against this by extracting a binding commitment from the EC that any greater concessions offered subsequently to other ACP regions must automatically be extended to it. Such a provision would, nevertheless, have to be carefully crafted so as to avoid varying interpretations at a future date. At the most recent CARIFORUM-EC ministerial meeting, Commissioner Mandelson made such a commitment; that is, that the Caribbean would in no way be

disadvantaged by finishing first. It is therefore up to the Caribbean to hold Mr. Mandelson to his word, preferably in writing.

2. The objective circumstances of the other ACP regions differ significantly from those of the Caribbean. The major difference lies in the fact that, while CARIFORUM is composed essentially of non-LDCs (Haiti being the only exception), most of the other regions are dominated by LDCs. In their relations with the EC, LDCs have the advantage of being beneficiaries of the Everything But Arms (EBA) initiative by which the EC offers them full duty free and quota free access on a non-reciprocal basis. This arrangement is not subject to a waiver since it is covered by the WTO's "Enabling Clause", the provision that permits the GSP, and which allows for discrimination in favour of LDCs.

3. The EC is clearly interested in concluding an agreement, which could then be used as a model for other regions. The successful conclusion of at least one of the economic partnership agreements within the stipulated timeframe would be of immense benefit to the EC's public profile. The EC had not recorded any trade negotiation success of late, whether at the multilateral or bilateral level, and this is one of its motivations for investing so much political capital in the EPA process. The Caribbean, rather than being in a position of weakness as some commentators have opined, was in a position to capitalize on the anxiety of the EC in this regard.

Indeed, CARIFORUM has extracted some significant concessions and has also forced the EC to back down from some of its earlier positions. For example, the region has been able to extract from the EC a commitment to a timeframe for tariff liberalization of 25 years, a concession unprecedented in any trade agreement. The EC has been forced to agree to the inclusion of specific provisions on development support in the text of the agreement and has had to relinquish its initial insistence that CARIFORUM should form a customs union. Also, it has had to concede that the Caribbean will not make a commitment in the area of tax governance.

4. The Caribbean region can rightly claim that, in its dealings on the international stage, it has adhered to its commitment to engage and has bargained in good faith. The partnership with the EC is not confined to trade and development cooperation but embraces a raft of economic, political and security issues. The historical friendship and contemporary links with individual EC member states have continued to prove valuable in advancing the region's interests in the international arena.

CARIFORUM, due to the careful technical preparations and seriousness of its engagement in negotiations was able to obtain several concessions from the European Commission, which at first appeared difficult to achieve, including a commitment to a transition period of 25 years for the phasing out of tariffs and the agreement to explicitly place development support provisions in the agreement.

## V

## CHARACTERISTICS OF CARIFORUM ECONOMIES

Small developing economies have certain characteristics[42] such as a high degree of openness, limited diversity in economic activity, export concentration on one to three products, significant dependence on trade taxes, and small size of firms. Some developing countries and least developed countries in general may exhibit some of the characteristics listed as defining small developing economies. This has led some to argue that many of the problems attributed to small developing economies are not unique to them or can be addressed by appropriate policy measures and therefore smallness does not differentiate economies.[43] Careful analysis reveals, however, that the characteristics which are common to different types of developing countries differ by degree between the different types of developing countries. Therefore, what sets small developing economies apart and defines them as a distinct genre of developing country is the combination of characteristics and the degree or extent of these characteristics.

### A. *Acute Vulnerability*

The high degree of openness and the concentration on a few export products, particularly some primary products and agricultural commodities whose prices and demand are subject to fluctuations in world markets, make small developing economies vulnerable to external economic events. Substantial dependence on external sources of economic growth makes small developing countries acutely vulnerable to exogenous shocks. The exposure of small developing economies to real shocks is much greater than in larger economies, which are usually more diversified in structure and exports.

Gonzales regards vulnerability as such a critical aspect that he speaks of small vulnerable transitional developing states as a distinct category of economy.[44] Economic vulnerability can be a feature of an economy of any size and level of development, but it is compounded by small size, a high degree of openness, narrow export concentration, susceptibility to natural disasters, remoteness and insularity. Small developing economies have structural features that make them more vulnerable to external shocks.[45] Indeed, acute vulnerability is a feature that is unique to small developing economies, differentiating them from other types of economies that may share characteristics such as openness, weak adjustment capacity and limited institutional capacity. It is a condition that arises from a high degree of openness compounded by a high degree of export concentration and export market concentration.

Export concentration is not unique to small developing economies; it is a feature of several developing countries and is particularly common among the least developed countries. However, concentration on a few exports, concomitant with small size of productive units and a disarticulated adjustment capacity, gives export concentration an importance in small developing economies beyond that of other developing countries.

### 1. High Degree of Openness

In small developing economies, external transactions are large in relation to total economic activity, as indicated by the high ratio of trade to GDP. There is heavy reliance on external trade because of a narrow range of resources and the inability to support certain types of production, given the small scale of the domestic market. Economic openness is measured by imports and exports of goods and services as a percentage of GDP. This ratio in CARICOM countries stands at 120.[46] A high degree of openness is not peculiar to small developing economies, as the growth of interdependence and the increase of international transactions relative to national production have resulted in all economies showing increased levels of openness. For many developed countries, a high degree of openness is typical; however, the implications of this are very different compared to small developing countries. A high level of openness coexists in most small developing economies with extreme export concentration and internationally uncompetitive production, resulting in vulnerability. In contrast, a high degree of openness in developed economies is indicative of their integration in the global economy and their ability to compete in global markets.

### 2. Export Concentration

The limited range of economic activity in small developing economies is reflected in concentration on one to three exports, accompanied in the majority of cases by a relatively high reliance on primary commodities. In extreme cases, one export, often a primary product or tourism, accounts for nearly all of the country's exports. Empirical analyses have detected a positive and statistically significant relationship between export concentration and export instability[47] which through its effects on terms of trade volatility has a major effect on income volatility.[48] The terms of trade volatility is 30 per cent higher for small developing economies than for other developing countries.[49]

### 3. Export Market Concentration

In many small developing economies export concentration is accompanied by export market concentration; that is, dependence on one or two export markets. For example in the 1990s, Britain absorbed Dominica's bananas when that product accounted for 90 per cent of total exports.

### 4. Export Marketing Monopoly

The effect of export market concentration is particularly detrimental to economic development if the export marketing is controlled by a single multinational corporation.[50] This is frequently the case, in part because of the very small export volume, for example the export of bananas and sugar from the Caribbean. Even where an export is handled by several multinational corporations, the transactions constitute intra-firm trade[51] and not the arms length international trade of economics textbooks. For a long time the world bauxite trade was conducted on the basis of intra-firm transfers[52] and there was no genuine world market in operation.

### 5. Acuteness

The extent of vulnerability of an economy can be measured by a "vulnerability index". For example, the index constructed by Atkins, Mazzi and Easter,[53] incorporates economic exposure, susceptibility to environmental events and remoteness and insularity. Gonzales uses income volatility, growth resilience and preference dependence.[54] Different vulnerability indices have been formulated differing in variables included and the methodology of weighting. Despite differences, all vulnerability indices reveal a relationship between vulnerability and size, with the smallest countries being the most vulnerable. Atkins et al found that 28 of the 30 most vulnerable were small developing economies.[55] A Commonwealth Secretariat/World Bank study has shown that of 111 developing countries, 26 of the 28 most vulnerable were small countries and that the least vulnerable economies were all large countries.[56] Argentina, Brazil, Canada and the United States have vulnerability indices of 0.2 or less while the ten smallest countries range from 0.59 to 0.84.[57]

## *B. Low, Declining Economic Growth*

The Caribbean economies have not grown at rates acceptable to the governments and people of the region. The rate of growth of GDP during the period 1990–2005 was 2.8 per cent, which was lower than that of developing countries and small states. In addition, "average growth has slowed in each decade since the 1970's, the gap between rich and poor states in the region continues to widen, and total factor productivity appears to have stagnated".[58] The forecast of the International Monetary Fund (IMF) for the Caribbean is for a sharp slowdown in economic growth over the next two years as a result of a recession in the United States and turmoil in world financial markets. Growth in the Caribbean region will slow to 4.4 per cent this year and 3.8 per cent in 2009 compared to 5.7 per cent last year.[59] The recent slowdown in the world economy emanating in the US economy makes it imperative that CARICOM countries seek new sources of growth, particularly sources which are not dependent on the US economy. The slowdown has affected remittances to the Caribbean. For example, although funds transferred to the region amounted to almost US$60 billion during 2007, the figure is "very small" compared to an annual average rate of 19 per cent between 2000 and 2006.[60]

There is no direct correlation between size and economic growth[61] and level of development. This is evident in the fact that many countries, which are small in terms of standard indicators such as population, land area and GDP, are ranked favourably according to levels of GDP per capita and the UN's Human Development Index. Small developing economies have traditionally experienced pronounced volatility in economic growth because of:

1. Acute vulnerability, which is especially severe when export earnings depend on products that are prone to instability such as primary products,[62] or goods whose market access depend on voluntary preferential arrangements in developed countries. This instability is heightened when exports depend on a few external markets because exports are exposed to fluctuations in demand and price and changes in market access policy in importing countries. It has been suggested that many small economies can reduce export instability by shifting to services, particularly tourism and financial services. The change in export composition towards the service industry has not always been accompanied by reduced instability in export earnings.[63]
2. The fragility of the ecology, which is one of the peculiarities of small developing countries, particularly small islands; the prevalence of natural disasters and the susceptibility of these countries to environmental damage from natural disasters. Natural disasters have been a recurring factor in the volatility of small developing economies. The impact of a natural disaster on a small economy and its financial sector can be far more devastating than it is on a large economy, where the damage is relatively localized. For example, the damage to Jamaica from hurricane Gilbert in 1988

amounted to about 33 per cent of GDP; damage to Antigua from Luis and Marilyn in 1995 amounted to about 66 per cent of GDP; and Montserrat suffered losses totalling 500 per cent of GDP from Hugo in 1989. In comparison, the damage to the United States from hurricane Andrew in 1992, while much larger in absolute financial terms, amounted to only 0.2 per cent of GDP.

3. A very high reliance on foreign capital inflows in the form of private direct foreign investment and development aid. The average of the ratio of the volume of capital flows to GDP is larger in small developing economies than in other developing countries and the ratio of foreign aid to GDP is about 20 per cent; double that of other developing countries.[64] Foreign aid flows are subject to considerable fluctuations from year to year because they are allocated according to the political priorities of donor governments. The evidence for the last 20 years reveals that small developing economies are at a disadvantage in attracting direct foreign investment compared to larger developing countries. This is in part due to the perception that smaller countries are riskier investment environments. Even when they have sound economic policies and the macroeconomic fundamentals are good, small developing countries are rated 29 per cent more risky.[65]

Volatility is a feature of developing countries which export primary products, particularly agricultural commodities and minerals, and experience fluctuations in capital flows. Volatility is costly because of its adverse impact on financial intermediation, exchange rates, inflation, income distribution, resource allocation, productivity and investment.[66] Income volatility has a strong negative effect on economic growth in developing countries[67] and adversely affects investment.[68] A high degree of trade openness in an economy raises exposure to volatility emanating from world markets.[69]

Small developing economies experience higher levels of volatility than other economies, indicating that small size is related to volatility. Empirical studies have documented greater volatility of output[70] and real per capita income[71] in small economies, and income volatility increases the smaller the economy.[72] Estimates by the World Bank and the Commonwealth Secretariat show that "the standard deviation of annual real per capita growth is about 25 per cent higher".[73] Small developing economies experience difficulty in sustaining economic growth and they may, as Looney argues, be incapable of sustaining economic growth.[74] During the period 1980–1998 only 24 of 53 small island countries achieved growth and the "average per capita growth rate was negative".[75]

### *C. Imperfect Markets*

The small size of markets in small developing economies results in market structures which are characterized by substantial imperfections. These derive from the limited number of participants and in many cases they are monopolies and oligopolies.[76] Even where there are a large number of producers or traders, one or a few firms effectively dominate the operation of markets both in the financial as well as the real sector. Market imperfections of one kind or another are to be found in economies of all types but in small developing economies these imperfections are particularly perverse. For example, monopolies in small developing economies are especially inefficient because the market is so small that there is little prospect of competition and they suffer from the lack of economies of scale.

Small markets are imperfect markets and this type of market situation has several implications for resource use, allocation and mobilization, including:

1. Markets are not competitive business environments even with a large number of firms because a very limited number of participants achieve dominance and hence there is oligopoly or

monopoly. These market situations reduce the efficiency with which firms operate and lead to distortions in resource use. The lack of market-driven competition leads to inefficiency and higher costs, as firms are not driven by the dynamics of competition to optimize efficiency and introduce new technology and improved production systems. A firm's international competitiveness depends on its capacity to continually innovate in production techniques and products. The national market conditions in which the company operates is a significant variable in its drive to develop its competitive advantage.

2. The small size and skewed structure of the market inhibits the ability of small, developing economies to garner resources from external sources, in particular private foreign investment. Investors often are unaware of opportunities in small developing economies or do not consider them to be worthwhile as investment locations because of the limited size of the national market. Further, investment in export sectors tends to be biased in favour of larger economies, even when these economies are low income and less developed.

3. The high import content of production and consumption, undiversified economic structure and the lack of competitive markets in small developing economies means that there are rigidities in resource allocation. This makes the adjustment process more difficult and, of necessity, slower than the adjustment process in larger, more developed economies.

4. Small firms and farms are unable to sustain a consistent supply in volume and quality in both the local and export markets and this results in their elimination from the market even where they are competitive in price and on most occasions acceptable in quality. For example, the tourism sector often imports food products which are produced locally because supply and quality are not consistent.[77]

5. The international competitiveness and efficiency is sub-optimal because labour productivity can never be at its maximum because small developing economies cannot provide opportunities for specialization. In these circumstances, highly skilled personnel function as generalists which reduces their productivity and this inherent trend is compounded by the migration of a significant portion of university-trained persons seeking jobs suited to their type and level of training. In some situations a highly specialist person, for example a neurosurgeon, may not be able to find sufficient work in an economy of 100,000 or less. Small developing economies such as Haiti, Jamaica and Trinidad and Tobago have more than 60 per cent of their highly skilled population living abroad and the figure reaches 83 per cent in the case of Guyana. The comparable data for large developing economies show Brazil, China, India, Indonesia and Thailand at less than 3.2 per cent.[78]

## *D. Small Size of Firms*

Firms from small developing economies are small by global standards, that is, by comparison with firms in large economies and multinational corporations. The differences in size are so enormous and these firms are so minute that their reality cannot be adequately captured by the nomenclature of small firms in the accepted connotation; they are best described as "nano-firms".[79] Small firms are at a disadvantage in the global marketplace because they cannot realize economies of scale, are not attractive business partners and cannot spend significant funds on marketing, research and development. However, there are exceptions to this general state of affairs. The difference in the size of total sales of the largest national firms is a good indicator of the enormous gap between firms competing in the global marketplace. The total sales of General Motors is 328 times larger than that of the largest nationally-owned firm in the small developing economies of the

English-speaking Caribbean. Sales and employment of some multinational corporations are larger than the GDP and population of many small developing economies. Given the minute size of even the largest firms in small developing economies, they in essence constitute micro-enterprises by global standards and this remains the case even when they merge within regional integration schemes among such economies.

It is firms, not countries, that conduct international trade. Firms in small developing economies are constrained by a business environment which is less conducive to attaining international competitiveness than that of large developing countries or developed countries. In these environments, economies of scale can be realized without involvement in export activity and firms can benefit from modern infrastructure, large markets and enterprise cluster. Small firms, even in developed countries, find it more difficult than large firms to overcome the difficulties of breaking into export markets[80] and undertaking foreign investment. The result is that less than 0.2 per cent of small firms have multinational operations.[81] Despite these difficulties some firms in small developing economies have attained international competitiveness,[82] established worldwide brands and become multinational enterprises.

1. Small developing economies have severe constraints on their material and labour inputs both in amount and variety because of their limited land area, narrow resource base and small populations. These constraints prevent the attainment of economies of scale for a wide range of products and lead to high unit costs of production, especially in manufacturing.[83] Small market size also tends to cause high costs because there is often a lack of competition and, in many instances, the markets are oligopolistic or controlled by monopolies.

Firms in small economies, especially small developing economies,[84] are at a major disadvantage compared to large firms in the global context. These small firms cannot attain either internal economies of scale[85] (where unit cost is influenced by the size of the firm), or external economies of scale (where unit cost depends on the size of the industry but not necessarily on the size of any one firm). A small economy and by extension small industries (including export sectors), is unlikely to foster the competitive dynamic necessary for firms in small economies to achieve competitive advantage. Competitive advantage in the sense in which Porter[86] uses the term is more likely to occur when the economy is a developed one and is large enough to sustain "clusters" of firms connected through vertical and horizontal relationships and where there are networks[87] of related and supporting industries. A firm working with world-class local suppliers can benefit from cross-fertilization opportunities and overcome information asymmetries. Related industries can also be an important source of innovations and can provide strategic alliances and joint ventures.

Firms in small, developing countries such as those in CARICOM have severe difficulties in attaining "economies of scope"; that is, economies obtained by a firm using its existing resources, skills and technologies to create new products and/or services for export. Exposure to global competition requires small firms to invest heavily just to survive in their national market and moreso, in order to export. Larger firms are better able to generate new products and sources from existing organizations and networks. Very large firms, such as multinational corporations (MNCs), operate internationally in ways that are very different from small firms.

The disabilities constraining small firms increase the smaller the developing economy in which they operate. Firms in micro developing economies face higher costs than those in other small developing economies.[88]

2. A small developing economy is an aggregation of firms which are small in the world market, and are therefore “price-takers”; that is, they exercise no influence on world market prices for goods, services and assets. Inputs including imports cost firms in small economies more compared to large firms, thereby making firms in small economies relatively less efficient.

Small developing economies pay higher transportation costs[89] because of the relatively small volume of cargo, small cargo units and the need for bulk breaking. Small economies pay an average of 10 per cent of the value of merchandise exports as freight costs compared to a 4.5 per cent worldwide average and 8.3 per cent for developing countries.[90] Small developing economies spend more on freight costs as a percentage of imports than large countries. The world average is roughly 5.25 per cent whereas the small developing economies of the Caribbean pay between 9 and 13 per cent.[91]

Public sector and government expenditure in small developing economies account for a larger share of GDP[92] than in larger countries. This is a reflection of the indivisibility of public administration structures, the lack of economies of scale in the provision of public goods and the execution of certain functions which every country, no matter how small, has to carry out; for example, a head of a state, a parliament and a police force must be maintained. The growth of the public sector has also been due in part to attempts to compensate for the absence of the private sector in certain economic activities, as well as the inability of firms in small developing economies to finance large infrastructure projects either in the narrow, local capital market or in international financial markets.

3. Firms in small developing economies, to the extent that they have to purchase inputs produced locally, will have higher production costs. This is because they are buying goods and services

produced by other local entities, both private and public, that are high cost producers because of lack of scale. In many instances imports are not an alternative; for example, electricity generated by a monopoly, which exists because the market is too small to support more than one producer or to allow efficient production. The cost of government services and public goods are more expensive because of a lack of scale and lack of specialization. For example, a ministry of government with two or three officers cannot provide specialized technical responses since of necessity they must be "generalists". Governments in small developing economies are not able to support local firms with research, infrastructure and financing. The public sector cannot help nano-firms to overcome their inability to undertake research and development and product enhancement, which is a key factor in the innovativeness of large firms.[93]

4. The small size of the market and the prevalence of small firms make it difficult for small economies to attract private foreign investment and joint venture partnerships even when the policy regime and economic fundamentals are better than competing locations. The result is that both the public sector and the private sector, composed of small firms, pay higher interest rates and other costs, which serve to increase the cost of production. Small firms and farms find it more difficult than larger entities to meet the cost of compliance with international standards. For example, in developing countries enterprise size is the key variable in the ability to comply with sanitary and phyto-sanitary measures in developed country markets.[94]

## *E. Dependence on Trade Taxes*

Trade taxes account for more than one-half of government revenue in St. Lucia, Belize, and the Bahamas, and over one-third of government revenue in the Dominican Republic. The extreme dependence on trade taxes as a source of fiscal revenue accounts for the resolute and persistent resistance of governments in small countries to contemplate tariff reductions. This, rather than protection of local industry, has delayed or blocked trade liberalization in small developing economies. Ironically, more costly imports due to high tariffs result in high input costs, which reduce the international competitiveness of exports of goods and services. In many instances, however, this is justified by the need to control import demand for balance of payments purposes.

## *F. Constrained Adjustment Capacity*

The high import content of production and consumption and the rigidity inherent in the undiversified economic structure of small developing economies severely hampers resource allocation, which makes the adjustment process more difficult and slower than in larger economies. In many situations, adjustment requires resource creation as well as resource allocation. The undiversified economic structure of small developing economies causes the adjustment process to be more difficult, larger relative to GDP and of necessity, slower than in larger countries.[95] There is a high degree of openness in small developing economies, one of the consequences of which is that movements in the price of imports dominate the overall domestic price level. The prices of non-traded goods also tend to adjust rapidly through the impact of foreign prices on wages and other costs. Exchange rate changes do not have the desired effect on the balance of payments because of low import and export price elasticities.

Stabilization policies must be designed specifically for small, developing countries taking cognizance of the structure of markets and the nature of their operations. The uncompetitive nature of these markets, particularly where monopolies and oligopolies exist, and the limited number and type of institutions, make resource utilization and allocation more problematic than in large developed economies. These types of market situations are characterized by rigidities, which make the adjustment process more time-consuming and which diminish the efficacy of conventional policy measures such as open market operations and recalibration of economy-wide prices such as the exchange rate. Furthermore, structural adjustment, like stabilization, is a more difficult process in small, developing economies because the inherent rigidities in the structure and operation of markets complicate the process of resource reallocation. The nature of these small markets also restricts the ability of private sector entities and the government to mobilize additional resources both within these economies and from external sources.

Small developing economies have structural features that need to be changed (where feasible), if these economies are to cope with the rapid and profound changes associated with globalization. Adjustment will not suffice to enable these economies to successfully manage the changes in the global economy since adjustment implies marginal and incremental modification to an economic structure which is fundamentally sound and conducive to sustainable economic growth. Economic transformation goes beyond the resource utilization, reallocation and mobilization intrinsic to stabilization and structural adjustment to incorporate resource creation over the medium to long term. Transformation in the current and future global economy will entail the ability of small developing economies to facilitate the rapid and frictionless international mobility of goods, services, finance, capital and technology, which is the essence of a seamless global economy.

Small developing economies have very limited institutional capacity and this has a number of implications which increase the cost of goods and services provided by the state, which in turn increase the cost of production in the private sector. In many instances the government cannot sustain specialized services with the result that such services are either not available or have to be imported. Even where the state has the capacity to supply certain goods and services, these tend to be high cost because of the absence of economies of scale and the indivisibility of certain public service functions.

# VI

## FEATURES AND MEASURES

To ensure that the EPA promotes and facilitates economic development the agreement is designed to include specific measures to address characteristics of the CARIFORUM economies that have to be changed to allow and facilitate economic development. This is explained in matrix format in Table I. The specific goals which comprise the overall goal of economic development and how they are linked directly to specific measures in the EPA are shown in Table II.

TABLE I
The Relationship between Characteristics of Small Developing Economies and Components of the Economic Partnership Agreement

| **MEASURES** / **FEATURES** | Asymmetric Obligations | Asymmetrically Phased Import Liberalization | Export Opportunities | Strengthening Regional Integration | Safeguards | Investment Promotion | Technical Assistance | Dispute Settlement | Development Funding |
|---|---|---|---|---|---|---|---|---|---|
| Acute vulnerability | | | X | X | X | X | | | X |
| Low volatile growth | | | X | X | X | X | | | X |
| Imperfect market | X | X | X | X | | X | X | | X |
| Small size of firms | X | X | X | X | | X | | | X |
| Dependence on trade taxes | X | X | X | | X | | | | X |
| Low international competitiveness | | | | X | | X | X | | X |
| Constrained adjustment capacity | X | X | | X | X | X | X | | X |
| Limited institutional capacity | X | X | X | X | | | X | X | X |

TABLE II
The Relationship between CARIFORUM Economic Goals
and Components of the Economic Partnership Agreement

| **GOALS** | Asymmetric Obligation | Asymmetrically Phased Import Liberalization | Export Opportunities | Strengthening Regional Integration | Safeguards | Investment Promotion | Technical Assistance | Dispute Settlement | Development Funding | Trade Facilitation |
|---|---|---|---|---|---|---|---|---|---|---|
| Export Expansion | | | X | X | | X | X | | X | X |
| Export Diversification | | | X | X | | X | X | | X | X |
| Increased Investment | | | | X | X | | X | | | X |
| Strengthening Institutional Capacity | | | | | | | X | | X | |
| Extended Adjustment & Implementation | X | X | | | X | | X | X | X | X |
| Improving International Competitiveness | | | | X | | X | X | | X | |

# VII

## CARIFORUM DEVELOPMENT OBJECTIVES

The economic development objectives of the EPA are:

### *A. Sustained Economic Development*

Sustained economic development must involve two inter-related dimensions: (1) Quantitative dimension – economic growth involving increased output, exports, employment and investment resulting in an improved standard of living of the majority of the population; (2) Qualitative dimension – must entail the transformation of structures and institutions and diversification of exports to reduce vulnerability and volatility in growth and create a platform for sustainability of the growth process.

### *B. Increased Export Earnings*

One of the objectives that the EPA must facilitate is the diversification of exports, in particular the emergence of new export of goods and services. The steady growth of services exports not confined to tourism is indicative of both a comparative advantage and an improving capacity. The prospect for industrial exports is narrower outside of the energy-based industries of Trinidad and Tobago and traditional agriculture-based products such as rum while the inability to attain economies of scale in a wide range of manufactured goods has not prohibited some exports, for example, electronics in St. Kitts and windows in Antigua. There has been a relative decline in industry and even de-industrialization, notably in the apparel sector in Jamaica. The share of industry in the region's GDP has declined from 38 per cent in the 1960s to 25 per cent in the 1990s.[96] There is scope to continue the growth of the financial services industry and Internet gaming. There is a continuing role for sugar and bananas in those countries that can produce competitively.

### C. *Export Diversification*

Services account for over 60 per cent of the GDP of the region. Payne and Sutton point out that the "Caribbean is the most tourism-intensive region in the world, with tourism accounting for 18 per cent of total GDP and 34 per cent of total employment."[97] Existing exports such as tourism will have to be diversified and new exports developed, for example healthcare,[98] health tourism and wellness. The export of university-level education can expand considerably and so can entertainment and culture. It is also possible, with the right policy mix, to create bio-industries.[99]

### D. *Extended Adjustment and Implementation*

Too long an adjustment period is just as harmful as a period that is too short to allow firms and governments to undertake adjustments. Governments have traditionally relied heavily on tax revenue from tariffs and customs duties as is the case in CARICOM, particularly in the smallest countries. Imports from the EC account for 15 per cent of total imports, therefore, while there will be less tariff revenue the decline will be relatively small. There does not have to be a net loss of fiscal revenue because the same amount of tax revenue can be derived from the different forms of taxation. The replacement of revenue foregone from lower-tariffs can be done at a very moderate pace because there is a three-year moratorium on import liberalization and then it will take place over 25 years. This is certainly enough time in which to devise and implement fiscal reform.

Local firms will have a chance to gradually upgrade their international competitiveness and should make sure to utilize the three-year moratorium on import liberalization to invest in new machinery, adopt the latest technology, identify export niche markets, formalize strategic corporate alliances and improve the productivity of management and labour. Strategic corporate alliances are an important means for small firms to enter export activity.[100] The first step in change is a change of mindset[101] and local firms must accept and respond proactively to changes in global economic reality. They have to respond not only to the EPA but to competition from the USA, China, Brazil and India, indeed to the world economy. All countries and the firms that operate therein are in a fierce unavoidable competition for capital, customers, technology and skilled human resources. This global rivalry does not permit countries the luxury of adjusting at their own pace and not adjusting is simply out of the question, especially for small developing economies and nano-firms.

### *E. Improving International Competitiveness*

The international competitiveness of CARICOM economies needs to be improved if they are to thrive in a globalized world economy. The information in Table III reveals that Barbados leads the region in competitiveness ranking 50 of the total of 130 countries, while at the other end of the table Guyana is at 126. Jamaica is at 78 and Trinidad and Tobago at 84. Unfortunately, the index does not capture the data for countries designated by CARICOM as less developed countries. In Subindex A, which covers basic requirements, Barbados is the strongest performer particularly in regard to health and primary education in respect of which Barbados was placed 9th out of 130 countries. In this same area, the remaining countries lag very far behind with Trinidad and Tobago coming in second position and Suriname in third in 62nd and 68th position respectively. In Subindex B, involving efficiency enhancers, all countries are hampered by small market size with

Jamaica standing out in terms of goods market efficiency, ranking 57th out of 130 countries. Subindex C, which relates to innovation and business sophistication, shows Barbados as the best overall performer in 57th position. Jamaica is second best followed by Trinidad and Tobago, with Guyana and Suriname at 113 and 115 respectively.

Market access is a necessary but not sufficient condition for increased exports and economic growth. The sufficient condition is the ability to produce goods and services that are internationally competitive in price and quality. This is not a new issue[102] but one which is yet to be adequately addressed and becomes impatient of delay with the advent of the EPA. CARICOM firms will be progressively exposed to competition with European firms as the import liberalization is implemented in 4–25 years of the EPA. Table IV shows that there are 21 European countries which are ranked higher than Barbados, the most competitive CARICOM country. Barbados is ranked 50 of 131 countries and Jamaica is next at 78. Of the EC countries, nine of them are among the 20 most competitive in the world. The implication of these differences in competitiveness is the urgent need for firms in CARICOM countries to increase the international competitiveness of their goods and services. The increased exposure of CARICOM firms to competition with European firms, which will take effect after year three of the implementation of the EPA, comes at a time when according to the World Bank, "the Caribbean has seen a reduction in its competitiveness over the last decade. Shares in world markets have fallen, trade has fallen as a share of GDP, and the current account has deteriorated."[103] During the period 1985–2000, CARICOM's market share in goods entering the EC market declined steadily.[104]

Table III
Global Competitiveness Index 2007–2008

| | Barbados | Guyana | Jamaica | Suriname | Trinidad & Tobago |
|---|---|---|---|---|---|
| **Rank (out of 131 countries)** | **50** | **126** | **78** | **113** | **84** |
| **Subindex A - Basic Requirements:** | | | | | |
| 1. Institutions | 25 | 121 | 87 | 98 | 92 |
| 2. Infrastructure | 29 | 106 | 63 | 102 | 69 |
| 3. Macroeconomic stability | 105 | 130 | 120 | 74 | 16 |
| 4. Health & primary education | 9 | 81 | 72 | 68 | 62 |
| **TOTAL** | **36** | **125** | **86** | **92** | **57** |
| **Subindex B - Efficiency Enhancers:** | | | | | |
| 5. Higher education and training | 32 | 97 | 71 | 100 | 70 |
| 6. Goods market efficiency | 70 | 103 | 57 | 127 | 75 |
| 7. Labour market efficiency | 38 | 109 | 53 | 101 | 62 |
| 8. Financial market sophistication | 41 | 100 | 49 | 102 | 45 |
| 9. Technological readiness | 34 | 102 | 43 | 118 | 66 |
| 10. Market size | 125 | 126 | 113 | 128 | 102 |
| **TOTAL** | **59** | **119** | **69** | **126** | **74** |
| **Subindex C - Innovation and Sophistication Factors**: | | | | | |
| 11. Business sophistication | 66 | 98 | 69 | 116 | 77 |
| 12. Innovation | 56 | 122 | 59 | 115 | 82 |
| **TOTAL** | **57** | **113** | **62** | **115** | **79** |

Source: *The Global Competitiveness Report 2007–2008* (Oxford University Press, 2007).

Table IV
Global Competitiveness Index 2007-2008 of the
European Union and Caribbean Forum States

| | **Rank (out of 131 countries)** | | **Score (out of a total of 7)** |
|---|---|---|---|
| Country/Economy | EC | CARIFORUM | |
| Denmark | 3 | | 5.62 |
| Sweden | 4 | | 5.55 |
| Germany | 5 | | 5.51 |
| Finland | 6 | | 5.49 |
| United Kingdom | 9 | | 5.41 |
| Netherlands | 10 | | 5.40 |
| Austria | 15 | | 5.23 |
| France | 18 | | 5.18 |
| Belgium | 20 | | 5.10 |
| Ireland | 22 | | 5.03 |
| Luxembourg | 25 | | 4.88 |
| Estonia | 27 | | 4.74 |
| Spain | 29 | | 4.66 |
| Czech Republic | 33 | | 4.58 |
| Lithuania | 38 | | 4.49 |
| Slovenia | 39 | | 4.48 |
| Portugal | 40 | | 4.48 |
| Slovak Republic | 41 | | 4.45 |
| Latvia | 45 | | 4.41 |
| Italy | 46 | | 4.36 |
| Hungary | 47 | | 4.35 |
| Barbados | | 50 | 4.32 |
| Poland | 51 | | 4.28 |
| Cyprus | 55 | | 4.23 |
| Malta | 56 | | 4.21 |
| Greece | 65 | | 4.08 |
| Romania | 74 | | 3.97 |
| Jamaica | | 78 | 3.95 |
| Bulgaria | 79 | | 3.93 |
| Trinidad and Tobago | | 84 | 3.88 |
| Dominican Republic | | 96 | 3.65 |
| Suriname | | 113 | 3.40 |
| Guyana | | 126 | 3.25 |

Source: *The Global Competitiveness Report* 2007–2008
(Oxford University Press, 2007).

# VIII

## TRADE AND ECONOMIC DEVELOPMENT

The relationship between international trade and economic development is one which has not enjoyed consensus among economists. Indeed, there are a range of widely divergent views on the trade–development nexus. There are three basic models:

1. Trade as a cause of underdevelopment with the policy prescription of withdrawal or minimization of involvement in the world economy while attempting to create a more just international economic order. This is the analysis and policy of the Structuralist, Dependency, Plantation and Neo-Marxist schools of thought. These approaches share the overarching analytic framework of a world capitalist economy in which differences in levels of development and power produce development and underdevelopment pointed to the deteriorating terms of trade between manufactured goods and primary products. Prebisch[105] and Singer[106] identified the problem of developing country trade as inherent in the structure of the world capitalist system, the international division of labour and the deformed economic structure of developing countries. The developed/industrialized countries which form the core of the world capitalist economy export manufactured goods, and the developing countries which constitute the periphery export primary products from the periphery. The core derives a disproportionate share of the gains from international trade. The core–periphery model is the framework employed by dependency economists such as Furtado,[107] Cardoso[108] and Sunkel,[109] and neo-Marxists such as Amin[110] and Emmanuel.[111] Plantation School economists like Beckford[112] and some dependency proponents such as Girvan[113] identify the multinational corporation as the institutional mechanism responsible for depriving developing countries of fair returns.

2. Free trade promotes economic growth and stimulates economic development in developing countries. The neo-classical theory of international trade is the basis for the advocacy of free trade and the claim that trade ensures that all participating countries derive benefit. Every country has a comparative advantage in some good or service and trade on this basis will generate growth and maximize consumer welfare.[114] International trade on the basis of comparative advantage as determined by their different factor endowments[115] is supposed to be best for individual countries and the world economy as a whole. The paradigm is referred to by its proponents as "the pure theory of international trade"[116] and is to be found in standard economics textbooks. The policy prescription is free trade which is the intellectual foundation of the WTO and is espoused by the developed countries although in their formative years they vigorously practiced more interventionist trade policies. In this conception, the mission of the WTO is to establish a multilateral trading system of free trade and the advice to developing countries is integration as quickly and completely as possible.

Economic growth in small developing economies requires access to external markets but while this is a necessary condition it is not a sufficient condition. If access to external markets is to promote growth and development it must be accompanied by domestic policy, which facilitates internationally competitive production of goods and services. The EPA provides improved market access but it is not a panacea that will guarantee economic development and structural transformation. Economic development will require the harmonization and complementarity of the internal economic policy and external frameworks such as the Economic Partnership Agreements with the European Union.

3. Special and differential trade for developing countries. The assumptions of the neo-classical approach are very restrictive

and bear little relationship to reality. The policy prescriptions have elicited skepticism and prompted alternative views about the role of trade in economic development, employing models which more accurately reflect the reality of developing countries. The divergence between the assumptions underpinning this theory of international trade and reality has forced even the most avid proponents of free trade, such as Bhagwati, to concede that "if markets do not work well, or are absent or incomplete, then … free trade cannot then be asserted to be the best policy."[117]

Developing countries can benefit from international trade if they are accorded special and differential treatment (S&DT). The case for S&DT is even more compelling for small developing economies. Until the establishment of the WTO in 1994, developed countries of Europe provided preferential market access to the developing countries of the ACP group. The Lomé Conventions provided one-way preferential market access to the ACP countries. There was a shift in this disposition of developed countries towards preferential trade which was epitomized by the rules of the WTO. The change in attitude was evident in the EC as well as an awareness that it was going to be increasingly difficult to get approval of preferential trade agreements in the WTO. Future preferential trade agreements would have to meet the requirements of the WTO such as liberalization of substantially all trade. The signing of the Cotonou Agreement by the ACP countries was a binding acceptance that the EPA would be based on S&DT but not of the type of the Lomé Conventions, that is, one-way, non-reciprocal preferential trade. This approach is adequate to facilitate economic development in CARIFORUM countries. This is evidenced by the fact that many of the most successful export sectors emerged and expanded without preferential market access – for example, tourism and entertainment – meanwhile many of the major industries that have had decades of preferential export arrangements are in decline and are uncompetitive.

The EPA eschews the notion that trade causes underdevelopment and, with justification, is skeptical of the heralded promises of free trade and hence is based on special and differential treatment. However, the EPA is not based on the extreme form of S&DT which in non-reciprocal preferential treatment. The key to achieving economic development through expanding international trade is producing goods and services that are internationally competitive in price and quality. The critical role of export competitiveness as the means of trade-led development applies to all countries, small and large, developed or developing. In fact, it is vital for the small, developing economies even if they have to rely on only a few exports and niche markets.

# IX

## SPECIAL AND DIFFERENTIAL TREATMENT

The Cotonou Agreement states that the EPAs negotiated between the EC and the ACP will be based on special and differential treatment. Article 35.3 states that "economic and trade cooperation shall take account of the different needs and levels of development of the ACP countries and regions. In this context, the Parties reaffirm their attachment to ensuring special and differential treatment for all ACP countries and to maintaining special treatment for ACP LDCs and to taking due account of the vulnerability of small, landlocked and island countries."[118]

The EPA seeks to promote economic development through the expansion of trade based on special and differential treatment for the CARIFORUM countries. Special and differential treatment can be expressed in a variety of forms.[119] The Lomé Conventions and the trade provisions of the Cotonou Agreement were based on one-way preferential market access/arrangements. The S&DT on which the EPA is based and which infuses the agreement is a different form of S&DT than the one-way preferential treatment in the trade provisions of the Cotonou Agreement. Special and Differential Treatment is given justiciable expression in the EPA by (1) differences in obligations, (2) asymmetrically phased implementation schedules, (3) development aid to assist in defraying the cost of implementation, and (4) attaining some commitments that are conditional on technical assistance.

The principle of special and differential treatment as expressed in the EPA is not only between the EC and CARIFORUM but is also applied among CARIFORUM countries. For example, the more developed countries will commence the application of regional preference after one year whereas for the less developed countries it starts after two years. A similarly bifurcated schedule is stipulated for transparency in public procurement with MDCs having two years to implement while the LDCs are allowed five years. The LDCs are accorded an exemption from the provisions on intellectual property, except for the implementation of the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement. They also have until January 1, 2021 to implement the standards and enforcement provisions on intellectual property.

The S&DT in the EPA must be catenated with appropriate domestic and regional policies. The experience of developing countries with S&DT and trade liberalization indicates that the benefits are not automatic but can be realized when coupled with appropriate domestic policies and what is appropriate is unique to each country. There are some commonalities which emerge from the experience of the developing countries. The growth promoting impact of trade liberalization can be enhanced by appropriate economic policy. These include macroeconomic stability, human resources, investment and good governance.[120] Apart from policies which enhance the general economic environment there should be a proactive use of the development policy space which the EPA allows. Trade liberalization will also entail a certain amount of institutional change in both the public and private sectors.[121] The real issue is the quality of domestic policy as shown by the fact that developing countries with sound policies achieve efficiency, international competitiveness and growth and are able to take advantage of open trade regimes.

Domestic policy and where appropriate regional policy, have a role to play in the realization of economic gain from trade liberalization. The process of achieving this must involve structural transformation, which goes beyond structural adjustment to involve strategic global repositioning. A prerequisite is sound macroeconomic management embedded in a stable network of institutions thereby providing a predictable economic environment. This must be complemented by a modernization of the business environment synchronized with the dynamic trends and sectors in the world economy, which serves to unleashing innovation and entrepreneurship. An integral aspect of this is strengthening markets at the national and regional level to intensify the dynamic stimulus of increased competition. The focus must be on the enhancement of the international competitiveness of goods and services for both export and domestic consumption. This involves attaining greater efficiency by increasing productivity of labour, capital and management in both the private and public sectors.

It is firms, not countries that compete, therefore it is essential to facilitate the re-dimensioning of corporate entities through a framework of appropriate fiscal policies and regulations conducive to mergers, joint ventures and strategic corporate alliances. Growing domestic and foreign investment if possible at an exponential rate is imperative. While foreign investment brings access to new technology, this needs to be accompanied by improving local capacity to generate and assimilate new technology. The application of technology can benefit from creating the knowledge space by expanding research, education and on-the-job training. The growth of export earnings will entail expansion of existing exports as well as diversification and rebalancing of exports to introduce new exports and right-size traditional industries, in particular sugar and bananas. To ensure that competitive goods and services become exports requires effective, creative marketing strategies including branding.[122]

## *A. Export Opportunities*

The EPA represents a major opportunity to export to the EC market and to attract foreign investment which, together with local investment, can produce goods and services for the EC market. The capacity of the Economic Partnership Agreement (EPA) between the European Union and CARIFORUM to stimulate economic development among the CARIFORUM countries derives primarily from the unprecedented access to the EC market for goods and services.

### 1. Market Access for Goods

The gravamen of the market access provisions of the EPA is duty free, quota free access for all products except sugar and rice from January 1, 2008 when there is provisional application of the EPA. Duty free, quota free treatment for these two products will be phased over a transition period not exceeding two years. This represents expanded and improved market access compared to that available under previous agreements, that is, the Lomé Conventions and the Cotonou Agreement. The EPA includes the elimination of all tariffs and tariff rate quotas on products not fully liberalized under the Cotonou trade regime such as bananas, beef and other meats, dairy products, wheat and all other cereals, as well as a range of fruits and vegetables.

The market access available in the EPA is similar to that provided to the least developed countries by the Everything But Arms initiative granted by the EC. It will also be available to other ACP countries that have signed either an EPA or an Interim Agreement. However, the market access is superior to all non-ACP countries, both developed and developing. This access to a high-income market of 450 million consumers and producers can: (1) stimulate an increase in existing exports of goods, (2) prompt new exports, and (3) attract inflows of direct foreign investment seeking to use CARIFORUM as a platform for exporting to the EC. In 2005, the value of merchandise imports into the EC accounted for approximately US$414 billion.[123] In like manner, the expansion of production for export to the EC market will generate increased foreign exchange earnings, employment, investment both domestic and foreign, and tax revenue.

The extent to which there is market access depends not only on the reduction/elimination of tariffs and non-tariff barriers but also on rules of origin. Rules of origin govern which goods qualify for the benefits of preferential treatment in a trade agreement. The rules of origin in the EPA maintain the structure of the rules of origin in the Cotonou Agreement while providing for changes in the conditions pertaining to production and manufacture of some goods. (a) Arrangements for handling production or manufacture provide for relaxed qualifying conditions on a range of exports of interest to the CARIFORUM states including biscuits and other baked products, jams and jellies, fruit juices and other beverages, garments knitted and non-knitted and air conditioning units. (b) The arrangements for certification of origin in the Cotonou Agreement were felt to be adequate and have been retained. (c) The provisions for administrative cooperation and verification are largely unchanged.

The main objective of the EPA provisions on intellectual property rights (IPR) is to stimulate innovation through EC development support for the promotion and development of IPR in the CARIFORUM region. This approach is aimed at being a catalyst to innovation and thereby to competitiveness. The EC support and technical cooperation is targeted to the development of a number of clusters in science and technology; eco-innovation and renewable energy, and information and communication technologies.

**2. Market Access for Services**

Services constitute a very significant proportion of the Gross Domestic Product of the countries of the CARIFORUM region. Services accounted for 66 per cent of the GDP of CARICOM member states and in the less developed countries the figure was 86 per cent.[124] Tourism accounts for 70 per cent of total services export of CARICOM.[125] The services export of CARICOM (excluding government services) grew by an average of 4.6 per cent per annum during 1993–2003, approximately 2 per cent below the rates of growth exhibited by the world economy and least developed countries. The region's share of the global services market dropped from 0.51 per cent in 1993 to 0.42 per cent in 2003.[126]

The EC will liberalize 94 per cent of its service sectors while liberalization in CARIFORUM is limited to 75 per cent in the more developed countries and 65 per cent in the less developed countries. Haiti and the Bahamas have six months to submit their liberalization schedules. The EC has opened sectors ranging from business services to communications, construction, distribution, environmental, financial, transport, tourism and recreation services. The commitments will start when the EPA enters into force for all EC states except the new members (Eastern and Central European states) whose commitments will start in 2011 for most countries, and Bulgaria and Romania in 2014.

The competitiveness of the tourism sector will be lifted by the lower costs resulting from the liberalization of trade in transport, communications and products. In addition, the tourism section introduces disciplines on anti-competitive practices of tourism operators, which will safeguard the interests of the mainly small firms in the Caribbean. This measure was necessary because the global tourism industry is a vertically integrated market and a consolidated distribution channel controlled by a limited number of large international entities. The EPA attempts to improve the prospects for CARIFORUM operators which do not currently have the capabilities to fully exploit increased market access to Europe because of the high cost of marketing in Europe and their limited access to market information. There are provisions on cooperation between CARIFORUM and European industry associations, and enhanced mechanisms for facilitating Caribbean access to information and training. It also provides for mutual recognition of tourism qualifications and cooperation on environmental standards.

The EC has agreed to unprecedented access in entertainment services in which CARIFORUM sees substantial opportunities. The EPA does not introduce any new requirements for entry by CARIFORUM entertainers. Article 83.2 of the EPA specifically excludes entertainers, fashion models and chef de cuisines providing services as contractual service suppliers from the requirement of a university degree. The EPA contains a legally binding market access commitment and therefore provides predictability by establishing clear terms for service provision by entertainers from the CARIFORUM states. The eligible duration of working is provided each time for a specific country, not for the EC as a whole. Properly managed, an entertainer could work in the EC for an entire year but not exceed the country-specific limits which may be as long as six months. Access to the entertainment market is complemented by a

Protocol on Cultural Cooperation including special provisions on audiovisual activities. Co-produced audiovisual products involving European and Caribbean collaboration will qualify as European works, thereby satisfying EC cultural content rules.

There has been substantial liberalization of temporary movement of natural persons (Mode 4) as reflected in easier access for Caribbean professionals in 29 sectors including entertainment. The EPA provides market access for Caribbean professionals in 29 sectors for employees of Caribbean firms (contractual service suppliers) to enter the EC to supply services and stays are for up to six months in a calendar year. As well, the EC has liberalized 11 sectors for temporary entry by independent professionals (IPs) or self-employed persons. Although there are some conditions in some states, for example, economic needs tests, there are no quotas on the number of service suppliers that can enter the EC market. This is an unprecedented and very important concession by the EC to CARIFORUM since in the WTO and in other bilateral FTAs the EC does not have market access commitments of this kind for temporary entry.

### *B. Import Liberalization*

Whenever a trade agreement involves countries that differ substantially in level of development and size, asymmetric tariff liberalization is appropriate. This well-recognized principle, has been given expression in the tariff liberalization process in the WTO where a distinction is made between developing countries and other countries. The EPA is founded on a clear recognition that the two groups of countries differ in size and level of development. This recognition is embedded throughout the agreement, most conspicuously in the schedules of tariff liberalization.

The EC provides duty free, quota free imports of goods from CARIFORUM from January 1, 2008 with the exception of sugar and rice, which will be phased in by the end of 2009. CARIFORUM (1) will liberalize 86.9 per cent of imports from the EC with 82.7 per cent within 15 years. (2) The rest of imports from the EC are on an exclusions list in perpetuity covering some 463 items and 75 per cent of agricultural imports. (3) There is a three-year moratorium before any tariff reduction commences. (4) There is a moratorium of 10 years for revenue-sensitive products such as gasoline, motor vehicles and parts. (5) Tariffs for a limited number of products will be reduced over periods extending to 25 years in the case of a limited number of products. (6) Other duties and charges will remain unchanged for seven years and will be eliminated in years 8, 9 and 10. (7) Tariffs on motor vehicles will decrease after a 10-year moratorium. (8) Items currently on the Revised Treaty of Chaguaramas Article 164 list of products (relating to industrial development in the LDCs) have been exempted from the liberalization process and any items so designated in the future. The CARIFORUM tariff liberalization schedule is shown in Table V.

Table V
CARIFORUM Tariff Liberalization Commitments

| Phasing period | Share of Imports (%) | Cumulative Share (%) | Total Trade (%) |
|---|---|---|---|
| 0 year | 52.8 | 52.8 | 70.0 |
| 5 years | 3.2 | 56.0 | 72.0 |
| 10 years | 8.3 | 61.1 | 75.3 |
| 15 years | 21.7 | 82.7 | 89.3 |
| 20 years | 1.9 | 84.6 | 90.5 |
| 25 years | 2.3 | 86.9 | 92.0 |

Source: Caribbean Regional Negotiating Machinery

The advantages of the arrangements for import liberalization include: (1) implementation periods extending in some cases up to 25 years. These extended adjustment periods will allow firms and governments to adjust gradually in keeping with their capacities. If firms and farms in CARICOM cannot become sufficiently competitive in 10–25 years they never will and should not be in operation. (2) The moratoria for elimination of tariffs and other duties and charges will allow time to plan and execute fiscal reform. The magnitude of the problem is much less than feared because EC imports account for approximately 15 per cent of total imports and 50 per cent of imports from the EC were duty free before the EPA. (3) Lower prices for imported inputs entering export production can enhance their competitiveness and export prospects. (4) Lower prices for consumers and inputs into production for the domestic market.

Less expensive imports from the EC could displace (1) more costly local goods and services, and/or (2) relatively more expensive imports from CARICOM partners and/or (3) imports from extra-regional countries. These consequences are beneficial to consumers and producers for both the domestic and export markets and must be understood in relation to the secure improved access to the EC market.

Import liberalization may cause some local firms to adjust but this is a normal part of every economy and is not peculiarly related to the EPA. The ebb and flow of enterprises is an inevitable aspect of the fluidity of economic life particularly in a period of rapid technological change and increasingly pervasive globalization. These phenomena are going to occur in CARICOM countries in which the price elasticity of demand for imports is such that consumers are willing to substitute in response to changes in tariffs.[127] The impact will be very limited because of (1) the exclusions list of 463 products; (2) the fact that EC imports account for only 10 per cent of total imports (see Table VI); (3) many imports from the EC were already duty free; and (4) the most sensitive imports will not be liberalized for at least 10 years.

Table VI
Total Imports from the European Community
as a Percentage of Total Imports of CARICOM

| | 1991–1995 | 1996–2000 | 2001–2004 | Average |
|---|---|---|---|---|
| **OECS** | 14.18 | 10.88 | 10.95 | 11.44 |
| Antigua and Barbuda | -- | 7.49 | -- | 7.49 |
| Dominica | 16.36 | 12.22 | 12.14 | 13.57 |
| Grenada | 13.42 | 10.71 | 10.53 | 11.55 |
| St. Kitts and Nevis | 8.54 | 6.74 | 6.88 | 7.39 |
| Saint Lucia | 14.88 | 13.08 | 12.12 | 13.36 |
| St. Vincent and the Grenadines | 17.72 | 15.04 | 13.06 | 15.27 |
| **LDCs** | 11.15 | 9.10 | 8.48 | 9.69 |
| Belize | 8.11 | 7.31 | 6.01 | 7.15 |
| **MDCs** | 13.41 | 10.47 | 11.61 | 11.17 |
| Bahamas | -- | 1.81 | 1.17 | 1.49 |
| Barbados | 12.18 | 11.17 | 12.38 | 11.91 |
| Guyana | 15.44 | 10.64 | 10.97 | 12.35 |
| Jamaica | 7.02 | 7.00 | 7.86 | 7.29 |
| Suriname | 17.34 | 21.19 | 21.99 | 20.17 |
| Trinidad and Tobago | 15.07 | 11.00 | 15.27 | 13.78 |
| **CARICOM** | 12.28 | 9.78 | 10.04 | 10.43 |

Local agricultural producers are afforded protection from EC export subsidies. The EC is obligated under the EPA to eliminate export subsidies on all agricultural products for which CARIFORUM has agreed to liberalize. On the other hand, CARIFORUM is not required to eliminate export subsidies which are sanctioned by the WTO under the Agreement on Agriculture and the Agreement on Subsidies and Countervailing Measures.

## *C. Transitional Arrangements for Traditional Agricultural Products*

Traditionally, most of the value of exports from CARIFORUM to the EC has consisted of three agricultural products, sugar, bananas and rice. There were specially designed and managed preferential arrangements for each of these commodities. The arrangements for bananas have had to be changed by the EC to comply with rulings from the Dispute Settlement Mechanism of the WTO. In the case of sugar the EC's internal policy reforms have been the primary driver of changes in the access arrangements for the ACP.

The EPA commits the EC to engage in consultations with CARIFORUM prior to any policy developments that may impact on the competitive position of the region's traditional exports on the EC market. This is particularly important in the context of possible developments in the WTO and bilateral free trade agreements which the EC may negotiate. The commitment extends to the EC's internal regulatory framework.

CARIFORUM gained an additional 60,000 tonnes of access for sugar exports to the EC market over and above the 160,000 tonnes available to Sugar Protocol (SP) signatories during the period up to the end of September 2009. Of the additional amount, 30,000 tonnes will be reserved for the Sugar Protocol countries, namely those of CARICOM, and the remainder is allotted to the Dominican Republic. While the Sugar Protocol remains in effect (until September 2009), the EC has given assurances that it will seek to ensure that any shortfalls on the SP quotas are reallocated among those CARIFORUM countries which are party to the protocol. In respect of a number of manufactured products that contain sugar, the EC has committed to reviewing that list of products with a view to reducing it at the end of three years following signature of the agreement.

Bananas will gain full duty free and quota free access to the EC market from the inception of the EPA. In effect, the recent ruling of the WTO dispute settlement panel against the EC's preferences granted to ACP banana exporters will become null and void insofar as CARIFORUM banana exports are concerned since the duty free preferences will now be protected under WTO rules governing free trade areas. The EC maintains a tariff of Euro 176 on imports of bananas from non-ACP suppliers. The beneficiaries of this measure are the CARIFORUM countries that will sign an EPA and the Cameroons and Cote d'Ivoire which have signed interim agreements.

The EPA contains a comprehensive Joint Declaration on Bananas, which acknowledges the importance of the industry to several CARIFORUM countries and which recognizes the need for the EC to maintain significant preferences for the product. The declaration also commits the EC to provide funding to assist the industry in making the necessary adjustments including diversification and international competitiveness, and addressing the social impacts that may arise from the new trading arrangements.

CARIFORUM rice exporting countries will have quotas of 187,000 tonnes for 2008 and 250,000 tonnes for 2009. The new quotas for 2008 and 2009 represent increases of 29 per cent and 72 per cent respectively over the present quota available to Guyana and Suriname. After 2009, CARIFORUM exports will have duty free and quota free access. The EPA contains a joint declaration committing the EC to keeping the licencing and other arrangements relating to the quota under review with the aim of ensuring that CARIFORUM exporters obtain the maximum benefit from the trade.

## *D. Investment Stimulation*

The duty free, quota free access to the EC market, if complemented by a suitably encouraging business environment in CARIFORUM countries, should induce foreign investment seeking to use CARIFORUM as an export platform. Foreign investors seeking this production possibility will not be confined to Europe but will be global in origin. The extent of direct foreign investment will also depend on the domestic economic environment. For example, the positive impact of foreign investment on productivity and technology transfer depends on the quality of human capital.[128]

The EPA encompasses investment provisions that provide transparency and predictability across an array of sectors in both parties, thereby enhancing the CARIFORUM region as a destination for foreign investment. Domestic investment should also be stimulated by the opportunities proffered by access to the EC market as export production expands in new and established goods and services. While encouraging foreign investment, the rules governing investment in CARIFORUM countries have excluded public services and utilities and maintained reservations to shelter small and medium size enterprises in specified sectors of CARIFORUM countries. The EPA also embodies obligations that are aimed at ensuring that investors adhere to labour, occupational health, safety and environmental standards.

The investment provisions of the EPA should foster strategic corporate alliances and other forms of collaboration. Partnerships with companies in developed countries can be instrumental to building export capacity in firms in developing countries.[129] This possibility is of considerable importance to the small firms in the services sector of the CARICOM countries.[130] The positive impact of foreign investment on growth[131] is derived from the technology transfers and knowledge diffusion. The presence of foreign companies creates pressure on local firms to improve productivity as they are pushed to meet international standards in quality and reliability of goods and services.

### *E. Strengthening Regional Integration*

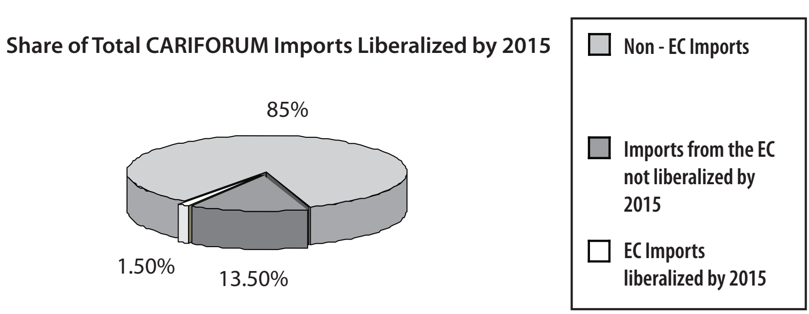
The EPA has as one of its objectives the strengthening of regional economic integration among the CARIFORUM countries. This is a complex task because there are four coexisting streams of integration which constitute a variable geometry, specifically: (a) the CARICOM Single Market and Economy; (b) the CARICOM-Dominican Republic Free Trade Agreement; (c) the Bahamas, which participates in neither the CSME nor the CARICOM-DR FTA and (d) the special case of Haiti. Despite these circumstances regional integration is replete throughout the EPA reflecting the fact that it has been and remains a central tenet of the development policy of both the EC and CARIFORUM. In some important respects the ambit of the EPA negotiations was constrained by the limited advancement of CARICOM integration.[132] The CARIFORUM negotiators successfully resisted EC demands for market access in government procurement so as to protect the integrity of the regional integration process as represented by the CSME. Ironically, the proposed commitments to be undertaken on government procurement in the CSME go beyond those that CARIFORUM countries will assume under the EPA. The EPA makes provision for cooperation and assistance to establish the CSME regime and improve national regimes so that the regional and national processes can move in tandem.

Even before seeking to strengthen regional integration in and among the existing streams of integration co-existing within the CARIFORUM economic space, care was taken to ensure that the EPA did not disrupt these processes. The most fundamental safeguard was the completion of the EPA. This obviated the need for each CARIFORUM to separately negotiate an interim agreement or opt to operate under the EC system of GSP. Either of these would have fragmented the already variegated Common External Tariff of the CSME.

The CARIFORUM negotiators also ensured that the EPA did not breach the integrity of the design and pace of the regional economic integration as embodied in the Treaty of Chaguaramas and the CARICOM Single Market and Economy. A notable example is resisting the relentless pressure from the EC for market access in government procurement. No right of market access is granted or conferred in the provisions in the EPA, which allows the intra-CARICOM process to proceed on its own volition.

The EPA will not require the acceleration of the implementation of the CARICOM Single Market. The latest version of the frequently postponed schedule for implementation of the CSM calls for completion by 2015. If the region achieves this target date the CSM will be fully operational long before the trade liberalization involved in the EPA begins in earnest. By 2015, less than 10 per cent of imports from the EC will be subject to tariff liberalization. Given that less than 15 per cent of our total imports come from the EC, it means that less than 2 per cent of total imports will be affected before the CSM is completed. Figure 1 shows the minute share of total imports affected by tariff liberalization resulting from the EPA.

Figure 1



If the implementation of the EPA were to induce acceleration in the completion of the CSME this would be to the good of the region. It would be unfortunate if this happened because of a development external to the integration process. Given the history of the CSME there is justifiable worry that completion of the CSME will be not be realized on schedule. A continuation of the dismal record of implementation of the CSME cannot be allowed to delay the EPA schedule. CARIFORUM does not have the luxury of adjusting at its own pace because the global economy waits for no one. The world is not changing; it has changed.

Regional preference as embodied in the EPA is consistent with Article 8 of the Revised Treaty of Chaguaramas. This provision means that any concession granted by one CARIFORUM state to the EC must be conferred on all other CARIFORUM states. The regional preference provision does not prevent CARIFORUM states from granting each other more favourable treatment without conferring such treatment on the EC. Among CARIFORUM states, the Dominican Republic has liberalized more with the EC than any other CARIFORUM state and those liberalization commitments must be granted to other CARIFORUM states. An important benefit will be the removal of Law 173 of the Dominican Republic, perhaps the most contentious issue in the negotiations of the built-in agenda of the CARICOM–Dominican Republic Free Trade Agreement.

The EPA contains a Most Favoured Nation (MFN) clause covering goods and services, which provides for both CARIFORUM and the EC to automatically confer on each other any better treatment granted by one party to a major trading partner. Such entities are defined as countries or regional blocs garnering 1 per cent or 1.5 per cent and above, of world merchandise exports.

One of the constraints of small developing economies is the small size of the national market, which precludes the realization of economies of scale in a wide range of lines of production. An important part of the rationale for regional economic integration is that the amalgamation of national markets may produce a regional market, which allows the attainment of economies of scale. This may not materialize if the resulting regional market is still too small, which has been the experience of CARICOM. This is where access to large external markets or to the world market allows the achievement of economies of scale. The EPA is valuable to CARICOM because a market the size of the EC is sufficiently large to allow CARICOM-based firms to achieve economies of scale through exporting.

The concept of the CSME is not cast in tablets of stone because it would be immutable in an environment of rapid and profound changes in the global economy. Adjustments have to be made to the CSME model to keep it relevant in changing local, regional and international circumstances. The Treaty of Chaguaramas is couched in sufficiently flexible language that what it is interpreted to permit can be modified without redacting the text but if warranted, the "sacred text" can and should be amended. If the Treaty mandates a static model of regional integration then it will increasingly represent occlusion rather than a creative foundation for regional development.

### *F. Development Assistance*

The 10th European Development Fund (EDF) programme is estimated at €165mn with €132mn allocated to the CARIFORUM Regional Indicative Programme (CRIP) and €33mn allocated directly to EPA implementation. CARIFORUM ministers decided in October 2007 that 30 per cent (€39.6m) of the €132mn will be devoted to EPA implementation. Together, these amount to €72.6mn for EPA implementation. Some CARIFORUM states, such as the Dominican Republic and Jamaica, have already decided to target EPA implementation as one of the primary areas to be supported by their National Indicative Programmes. There is also an all-ACP facility of €2.7bn in the 10th EDF.

In addition, EC member states have committed to extending development assistance of €1bn by 2010, even though the share for CARIFORUM is not yet known because geographical allocations are yet to be decided. In order to accelerate the delivery of resources, the EC has proposed the utilization of two mechanisms, budgetary support amounting to €340mn and the Regional Development Fund. The European Investment Bank (EIB) will continue to provide €2bn in investment financing.

The EC has announced that it will contribute €2bn to Aid for Trade but the modalities for allocation and disbursement have not yet been developed and promulgated. The CARIFORUM states should make every effort to influence this process.

The Regional Preparatory Task Force (RPTF) identifies projects related to EPA implementation which can be funded through the CARIFORUM Technical Cooperation Facility with €400,000 of unutilized funds and the Caribbean Integration Support Programme which has €150,000 allocated for studies and another €75,000 for non-state actors.

A matrix of development needs to be financed by EC development assistance has been prepared by the Caribbean Regional Negotiating Machinery (Table VII).

Undoubtedly, additional needs will emerge as the implementation proceeds because it is impossible to anticipate with complete accuracy all the demands that will emerge. Add to that the fact that the EPA is permanent and the resources allocation by the EC at the inception of the EPA is not the totality of what will be required for the implementation of the EPA. The task of mobilization of additional resources will require both technical and political work. At the technical level there should be a plan and schedule of EPA on a CARIFORUM-wide basis which puts precise financial costs to each target. At the political level, a strategy has to be designed and operationalized. The pitch must be tangible evidence that the region is making a serious effort to implement the EPA and that governments are endeavouring to rely on their own resources. The plausible case can then be made that the local efforts could be complemented and boosted by additional resources. The campaign cannot be confined to London and Brussels as it was during the negotiations for the EPA. The demarche must be extended to as many European countries as possible. This is feasible because it does not necessitate travel to the capitals of Europe although this would be ideal. A more cost-effective approach is attending fora where several or all EC states are represented at the appropriate political level and working the plenary and in particular engaging in meetings with individual country delegations.

Table VII
Matrix of Identified CARIFORUM Development Needs

| EPA CHAPTERS | IDENTIFIED CARIFORUM DEVELOPMENT NEEDS |
|---|---|
| Custom and Trade Facilitation | a) the application of modern customs techniques, including risk assessment, simplified procedures for entry and release of goods, post release controls and company audit methods;<br>b) international instruments and standards applicable in the field of customs and trade, including WTO rules and WCO instruments and standards, inter alia, the revised Kyoto Convention on the simplification and harmonization of customs procedures and the WCO Framework of Standards to Secure and Facilitate Global Trade; and<br>c) the automation of customs and other trade procedures. |
| Agriculture | The establishment of a Joint Cooperative Mechanism on thepromotion of agriculture, food and rural development |

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| | in the Caribbean states. The Mechanism shall have the following objectives and mandates:<br>a) to provide an on-going forum within which representatives of governments, the private sector and non-state actors can engage regularly in the formulation of forward-looking strategies;<br>b) identify the policy and institutional changes needed to underpin the transformation of the sector;<br>c) determine ways of encouraging additional investment in the Caribbean agricultural and food sectors;<br>d) provide the necessary inputs for the formulation of a Caribbean-wide agricultural, food & rural development strategy;<br>e) identify and cost the various components of the development strategy and promote their implementation; and<br>f) provide an interface with EC-based and other development funding agencies. |
| Fisheries | a) technical assistance for the further mapping, valuation and assessment of fisheries resources and the development of regional and national policies and control authorities;<br>b) strengthening of systems for monitoring, control and surveillance (MCS) and the elimination of illegal, unreported and unregulated (IUU) fishing in the region;<br>c) improving the socioeconomic conditions of small-scale fishing operations and facilitating their participation in regional and international trade;<br>d) the encouragement of joint ventures in fisheries, including processing, between Caribbean and European interests;<br>e) updating and strengthening harmonized food quality assurance legislation and policy including systems for use on fishing vessels;<br>f) improving the ability of Caribbean operators to comply with national, regional and international technical, health and quality standards for fish and fish products;<br>g) building and/or strengthening the scientific and technical human and regional institutional capability dedicated to sustainable use, management and conservation of fisheries;<br>h) regional efforts for the development and implementation of common fisheries policies and regimes aimed at promoting sustainable development, management |

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| | and conservation of the region's fisheries and aquatic resources including aquaculture through closer regional cooperation; and<br>i) development of human resources in all aspects of fisheries and aquaculture. |
| Technical Barriers to Trade | a) establishment of the appropriate arrangements for the sharing of expertise, including appropriate training intended to ensure adequate and enduring technical competence of the relevant CARIFORUM standard setting and conformity assessment bodies;<br>b) development of centres of expertise within CARIFORUM for the certification of goods as meeting the requirements for access into the EC market;<br>c) development of CARIFORUM private sector capacity to meet standards set by relevant market conditions, particularly where these standards exceed regulatory requirements; and<br>d) developing and adopting harmonized technical regulations, standards and conformity assessment procedures based on relevant international standards. |
| Sanitary and Phyto-sanitary Measures | a) establishment of the appropriate arrangements for the sharing of expertise, to address issues of plant, animal and public health, such collaboration shall include the development of ways in which such issues can be addressed by CARIFORUM in both the short term and in a sustainable manner;<br>b) development of CARIFORUM private sector capacity to meet requirements established by the private sector; and<br>c) cooperation in international standard-setting bodies, including the facilitation by the EC of participation by representatives of CARIFORUM states in the meeting of these bodies. |
| Services | a) assistance to CARIFORUM professional associations to achieve international accreditation;<br>b) support for the establishment of CARIFORUM-EC forum for professional associations;<br>c) designing business development programmes for CARIFORUM service suppliers;<br>d) training and implementation for trade development projects in selected services sub-sectors with special focus on SMEs in the export value chain;<br>e) programmes aimed at enhancing SME's use of e-commerce; |

| | |
|---|---|
| | f) developing matchmaking services for EC and CARIFORUM firms; and<br>g) supporting the establishment of a Caribbean School of Design and Promotion of creative industries. |
| Competition Policy | a) joint initiative to raise awareness about the science and technology capacity building programmes of the European Community including the international dimension of the seventh European and Technological Development and Demonstration Programme (FP7);<br>b) joint research networks in areas of common interest;<br>c) exchanges of researchers and experts to promote project preparation and participation to FP7 and to the other research programmes of the European Community;<br>d) joint scientific meetings to foster exchanges of information and interaction and to identify areas for joint research;<br>e) the promotion of activities linked to scientific and technological forward studies which contribute to the long term sustainable development of both parties;<br>f) the development of links between the public and private sectors;<br>g) the evaluation of joint work and the dissemination of results;<br>h) policy dialogue and exchanges of scientific and technological information and experience at regional level; and<br>i) exchange of information at regional level on regional science and technology programmes, and dissemination of information on the international dimension of the FP7 of the European Commission and its eventual successors, and about the science and technology capacity building programmes of the European Community. |
| Competitiveness and Innovation | a) dialogue on the various issues of the information society, including promotion and monitoring of the emergence of the information society;<br>b) cooperation on regulatory and policy aspects of telecommunications;<br>c) exchange of information on standards, conformity assessment and type approval;<br>d) dissemination of new information and communication technologies; |

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| | e) joint research projects on information and communication technologies and pilot projects in the field of information society applications;<br>f) promotion of exchange and training of specialists, in particular for young professionals; and<br>g) exchange and dissemination of experiences from government initiatives which apply information technologies in their relationship with society. |
| Science and Technology | a) exchanges of information, know-how and experts;<br>b) awareness raising and training activities;<br>c) preparation of studies and provision of technical assistance;<br>d) collaboration in research and development;<br>e) pilot and demonstration projects; and<br>f) promotion of eco-innovation networks and clusters, including through public-private partnership. |
| Information and Communication Technologies | a) reinforcement of regional initiatives, organizations and offices in the field of intellectual property rights, including the training of personnel, with a view to improving regional regulatory capacity, regional laws and regulations, as well as regional implementation, with respect to intellectual property commitments undertaken in this sector, including on enforcement. This shall, in particular, involve support to countries not party but wishing to adhere to regional initiatives, as well as regional management of copyright and related rights;<br>b) identification of products that could benefit from protection as geographical indications and any other action aimed at achieving protection for these products as geographical indications. In so doing, the European Community and the Signatory CARIFORUM States shall pay particular attention to promoting and preserving local traditional knowledge and biodiversity through the establishment of geographical indications; and<br>c) where appropriate, support in the preparation of national laws and regulations for the protection and enforcement of intellectual property rights, and in the establishment and reinforcement, including the training of personnel, of domestic offices and other agencies in the field of intellectual property rights including on enforcement. |

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| Environment,<br>Eco-innovation and<br>Renewable Energy | a) exchanging experience and information about best practices and regulatory frameworks; and<br>b) establishment and maintenance of appropriate systems and mechanisms to facilitate compliance with the obligations in this chapter. |
| Intellectual Property | a) reinforcement of regional initiatives, organisations and offices in the field of intellectual property rights, including the training of personnel, with a view to improving regional regulatory capacity, regional laws and regulations, as well as regional implementation, with respect to intellectual property commitments undertaken under this Title, including on enforcement. This shall in particular involve support to countries not party but wishing to adhere to regional initiatives, as well as regional management of copyright and related rights;<br>b) identification of products that could benefit from protection as geographical indications and any other action aimed at achieving protection as geographical indications for these products. In so doing, the European Community and the signatory CARIFORUM states shall pay particular attention to promoting and preserving local traditional knowledge and biodiversity through the establishment of geographical indications; and<br>c) where appropriate, support in the preparation of national laws and regulations for the protection and enforcement of intellectual property rights, and in the establishment and reinforcement, including the training of personnel, of domestic offices and other agencies in the field of intellectual property rights including on enforcement. |
| Investment | a) develop appropriate means of identifying investment opportunities and improving information channels regarding investment regulations;<br>b) provide information on European investment regimes (such as technical assistance, direct financial support, fiscal incentives and investment insurance) related to outward investments and enhancing the possibility for CARIFORUM to benefit from them;<br>c) support the creation of a legal environment conducive to investment among the parties and, where appropriate, through the conclusion by the parties of agreements to prevent double taxation; |

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| | d) promote the creation of joint ventures between European and CARIFORUM firms especially for small and medium enterprises (SMEs);<br>e) establish mechanisms for encouraging and promoting investments and enhancing investment promotion agencies in CARIFORUM states; and<br>f) develop mechanisms favourable to the development of private enterprise in order to stimulate the growth and the diversification of industrial production, in particular through the (1) establishment of a corporate finance brokerage facility; (2) improvement of access to investment finance by the establishment of a mutual guarantee company to enhance SMEs' negotiation power to obtain better terms and conditions for credit facilities and insurance. |
| Government Procurement | a) exchange of experience and information about best practices and regulatory frameworks; and<br>b) establishment and maintenance of appropriate systems and mechanisms to facilitate compliance with the obligations of this Chapter. |

The governments of CARIFORUM do not appear to be satisfied with the amount of development assistance provided by the EC. If so they should launch a diplomatic demarche to garner more resources. As middle-income developing countries, the case is not perceived by donors as approaching the urgency or need of the least developed countries of which there are many in the ACP group who are claimants on the same pool of money. The approach to the EC must take full cognizance of the growing donor fatigue in the EC and other developed countries. There must also be recognition that the EPA is not a panacea nor is it an aid agreement; it is a trade agreement. EC development assistance which supports the EPA cannot be taken to encompass every social and development need but must have some direct connection to adjustment caused by the EPA or some expense which emanates from EPA implementation.

The platform for more aid will not succeed if it relies entirely on being small and vulnerable but must build on this by a posture based on actual application to adjustment. The pitch must be that the region is adjusting and assistance could strengthen this effort. Too often in the past the region has been in the invidious position of asking for money for adjustment while at the same time displaying a convincing unwillingness to even contemplate adjustment. The more propitious stance is one of “we know where we are going, we are on the way, we could accomplish more and faster if we had additional resources”. The traditional approaches derided by some in and out of the region as mendicancy would reinforce the view that the region consists of aid-seeking governments.

### *G. Development Policy Space*

One of the issues on which the EC and CARIFORUM differed was the approach to development. The EC perspective was rooted in the paradigm that is convinced that the liberalization of market access by itself will automatically produce economic growth and that this can be further enhanced if the countries ensure that their economic policies and institutional arrangements conform to a standard package. In addition, drawing on their own experience the EC believes that regional economic integration will create an economic space which adds economies of scale and scope. Development assistance can make the implementation of the conventional approach more palatable, ease the burden of adjustment and accelerate implementation.

The fundamental flaws in the conventional approach which the EC applied to the negotiation of EPAs with the ACP countries are:

1. Market access to the EC is a necessary, not sufficient condition for the promotion of economic development of the developing economies of the ACP group. Improved access to the developed country markets of the EC can stimulate an expansion of exports to these markets. For this to come to fruition the ACP economies have to be in a position to take advantage of the export

opportunities. The voluminous empirical literature documents that there is no automatic link between openness/trade liberalization and increased economic growth, much less economic development.[133] However, some countries have prospered from the course but in those cases they pursued development strategies that consisted of a policy mix that was unique to their circumstances and involved an interventionist role for the state.

2. The one-size-fits-all conventional economic package deprives developing countries of the space for their own development policy. Successful development policy cannot be a standard policy prescription imported wholesale to which each developing country's reality must be made to conform. Even when it is conceded that each country is unique, some like Freidman[134] mistakenly assume that the standard policy package is dictated by the very logic of globalization. Those advocating the standard package because of self-interest, fundamentalist neo-liberalism or myopia, would deprive developing countries of the policy space and autonomy which they had in their period of nascent development and which they no longer need.

Each country has to devise an economic strategy tailored to it own unique local conditions. Rodrick advises that:

> "transitions to high economic growth are rarely sparked by blueprints imported from abroad. Opening up the economy is hardly ever a key factor at the outset. The initiating reforms instead tend to be a combination of unconventional institutional innovations with some of the elements drawn from the orthodox recipe. These combinations tend to be country-specific, requiring local knowledge and experimentation for successful implementation."[135]

CARIFORUM negotiators were fully aware that improved access to the EC market was an important opportunity that was albeit one component in the promotion of economic development.

CARIFORUM was cognizant of the benefits of regional integration and that development assistance could play an important role in meeting the costs of adjustment and implementation arising from the EPA. All of this was crucially dependent on having the maximum development policy space to allow governments to design their development strategies based on their specific circumstances. The major difference in approach between the EC and CARIFORUM was over the issue of development policy space. CARIFORUM prevailed over the strenuous opposition to enshrine the centrality of development in a separate chapter, providing an overarching framework of goals and principles and infusing specific development measures in each subject area. Preserving development policy space involved:

1. Resisting the inclusion of certain issues because they were too intrusive. For example, the rejection of the repeated EC proposal to address in a substantive manner so-called governance in taxation. The EC pressed for what it described as the elimination of harmful tax practices and the promotion of transparency and effective exchange of information for tax purposes. CARIFORUM was resolute in the position that this subject lies outside the ambit of a trade agreement, would undermine the sovereignty of CARIFORUM states and would be detrimental to the viability of the region's offshore financial sector.
2. Refusing to go beyond where the negotiations in the WTO have reached or to treat certain subjects which are not being negotiated in the WTO. For example, the EPA includes certain broad principles on competition policy which do not prejudice either the outcome on this issue if it is negotiated in the WTO, or preempt the development of a competition policy regime in the CSME. This approach has the benefit of balancing (a) inclusion of principles that will provide support for development and (b) not foreclosing future positions on subjects not yet negotiated in

the WTO. These include: (i) transparency in public procurement, which can improve real and perceived management of scarce public resources in the pursuit of value for money objectives; (ii) competition policy, where the EPA broadly proscribes the most common forms of anti-competitive behaviour; and (iii) the inclusion of internationally accepted principles of the protection of personal data, in support of the development and growth of service sectors that involve the receipt, processing and/or transfer of personal data such as education, healthcare, tourism and business services, for example, medical billing and transcription and/or consumer product ordering or technical support calls.

3. Rejecting measures that would breach the integrity of the design and planned pace of implementation of the CSME, for example, market access in public procurement. The treatment of some issues that CARIFORUM states could not immediately commit to are given extended periods for resolution. CARIFORUM has until January 1, 2014 to establish a system for the protection of geographical indications. The treatment of some issues is confined to a signal of their relevance and is framed in non-binding language. The relationship between trade and the environment was important to both parties, hence the EPA seeks to facilitate the development of trade in a manner that promotes the protection and preservation of the environment. The parties will regulate in accordance with their own goals for sustainable development priorities, provided that such regulation does not constitute arbitrary or unjustifiable restrictions on trade. The Chapter is couched in "best endeavour" language, leaving the CARIFORUM states free to enact and implement measures in accordance with their own needs.

Another issue of concern to both sides was labour and trade. Chapter 5 is a re-affirmation of existing commitments to the core labour standards as defined by the ILO. The Chapter prevents the use of labour standards for protectionist purposes and ensures that trade practices do not undermine social and economic objectives. The parties have the expressed right to set and superintend labour standards in accordance with their own social development priorities, provided they are consistent with the core rights and standards identified by the ILO.

The completed CARIFORUM-EC Economic Partnership Agreement preserves the development policy space of the CARIFORUM countries. It is now up to the government of each CARIFORUM country to formulate and implement a strategy which allows the extraction of the maximum yield to strengthen and promote economic development.

### *H. Regional Innovation Systems* [136]

The intensification of competition and constant upgrading of competitiveness in response to new technology is inherent in globalization. The imperative for small developing economies is to meet this challenge and avoid the impoverishment that is often the result of marginalization from the dynamic of global trade and investment. Consequently, the EPA locates the provisions on intellectual property rights in the framework of a chapter on innovation systems with the objective of strengthening regional and national systems of innovation[137] in the CARIFORUM region.

The fundamental determinant of competitiveness and productivity in a modern dynamic economy engaged in the global economy is knowledge. Innovation systems which, of necessity encompass intellectual property rights, are essential for the generation, adoption and diffusion of economically useful knowledge integral to the production and distribution of goods and services. Given the extent and intensity of globalization, an increasing number of aspects of innovation become transnational and therefore innovation systems are likely to be more fecund if they extend beyond the nation state; in the case of the EPA the dimension is regional.

The intensive competition inherent in globalization compels companies to search worldwide for the most supportive business environment and relocate whenever there are advantages to be garnered. One of the attractions of an environment that facilitates continual retaining and regaining of the competitive edge is the capacity for innovation including research infrastructure, a highly trained labour force, institutional arrangements that encourage knowledge generation and learning and clusters of firms for forward and backward linkages.

The EPA seeks to facilitate: (a) the process of innovation in firms in the CARIFORUM region; (b) the transfer of EC innovations to CARIFORUM firms; and (c) the commercialization of innovations by CARIFORUM firms in the EC market. The intellectual property rights provisions will encourage the commercialization and application of new technology by the establishment and enforcement of the IPRs of CARIFORUM firms and the licencing to EC firms.

The EC is already supporting some aspects of the innovation process in CARIFORUM through, for example, mechanisms within the seventh EC Research Framework Programme (2007–2013).

### *I. Trade Facilitation*

Without adequate trade facilitation it would be difficult to realize the full potential of the trade agreement. For this reason, the EPA creates reciprocal obligations in trade facilitation for the EC and CARIFORUM countries. The objective is to ensure improved efficiency, transparency and non-discrimination in customs operations and border management procedures. This includes: (a) the application of modern customs techniques and automation of customs procedures; and (b) introduction of procedures and practices which meet international and WTO standards, and those of the revised Kyoto Convention. There is a strong emphasis on cooperation on customs issues between the parties, taking into account the differences in the level of development of institutional capacity of the customs administrations in the EC and CARIFORUM. A number of the commitments to be instituted by CARIFORUM governments are conditional on receiving technical assistance, training and financial. There is a link between the attainment of commitments by CARIFORUM and the delivery of EC support.

## *J. Governance*

The EPA is a permanent agreement and cannot possibly anticipate the needs of both parties as the trade relation evolves over time and therefore there must be some arrangement to make amendments to the agreement. Every trade agreement creates some institutional machinery to have oversight of implementation, to permit the redaction of the text where and when necessary and to provide for dispute settlement. The EPA establishes an institutional apparatus to monitor the implementation and consider possible amendments to the agreement. The CARIFORUM-EC EPA establishes a number of institutions vested with specific responsibilities. These include: (a) The Joint CARIFORUM-EC Council; (b) The CARIFORUM-EC Trade and Development Committee; (c) The CARIFORUM-EC Parliamentary Committee; and (d) The CARIFORUM-EC Consultative Committee. None of these institutions in any way impinge on the sovereignty of CARIFORUM, CARICOM or its member states because their membership is comprised of representatives of CARIFORUM member states and decisions have to be by mutual agreement of both sides.

The Joint CARIFORUM-EC Council will meet at ministerial level at intervals not exceeding two-year periods. This institution has responsibility for superintending the implementation of the EPA. The CARIFORUM-EC Trade and Development Committee is charged with the responsibility of assisting the Joint CARIFORUM-EC Council in supervising the implementation of the Agreement, ensuring disputes are resolved in an expeditious manner and that the development goals are attained. It will oversee specific trade- and development-related matters, for example, (a) to review the cooperation priorities and make recommendations on the inclusion of new priorities; (b) the implementation of the cooperation provisions and coordination of such action with third-party donors; (c) to undertake action to avoid disputes and to resolve disputes; and (d) to make recommendations on trade-related cooperation between the parties. The CARIFORUM-EC Parliamentary Committee is to be comprised of representatives of the European Parliament and of the legislatures of the CARIFORUM states. The CARIFORUM-EC Consultative Committee is a forum for civil society to have a say in the EPA implementation process.

The misperception has been expressed that the EPA institutions conflict with the powers and autonomy of the organs created by the revised Treaty of Chaguaramas to govern the Caribbean Community. The organs of the Community are: (i) the Conference of Heads of Governments; (ii) the Community Council of Ministers; (iii) the Council for Finance and Planning; (iv) the Council for Trade and Economic Development; (v) the Council for Foreign and Community Relations; and (vi) the Council for Human and Social Development. They have functions specific only to the internal administration of the Community, with respect to the conclusion of agreements on behalf of the Community and with respect to determining the internal and external policies of the Community. Institutions created by the EPA have functions and responsibilities for the implementation and operationalization of the EPA and have no role or authority in determining the internal or external policies of the Community or of any CARIFORUM state. Without prejudice to the functions of the Council of Ministers as defined in Article 15 of the Cotonou Agreement, the joint CARIFORUM-EC Council shall generally be responsible for the operation and implementation of this Agreement and shall monitor the fulfillment of its objectives.

The institutional arrangements for monitoring the implementation of the EPA in no way pose any threat to the sovereignty of CARIFORUM states. Every trade agreement has some institutional arrangements to oversee implementation and examine any disputes that may arise. The EPA is therefore not unusual in this respect. In fact, it is good to have a mechanism to ensure that the EC fulfills its commitments. First, the purview of these institutional arrangements is the EPA and does not extend to overall external trade policy, nor do they have any authority over internal policy of either CARICOM or its member states. Second, all decisions are to be made by consensus therefore the EC cannot unilaterally make a decision and impose it on CARIFORUM. It is reasonable to assume that the officials deployed to represent the region in these joint committees will be acting on the instructions of their governments and will act in accordance with the best interests of the people of the Caribbean.

# X

## ECONOMIC PARTNERSHIP AGREEMENT

Globalization involves reduction and/or elimination of national barriers to the global movement of goods, services, technology and capital. No one, consumer or producer, in developed or developing countries, large or small, can be insulated from globalization. It is not possible to avoid contact and participation in the global economy. Small developing countries have limited influence in global markets and on the policies of powerful developed countries. Trade agreements are an attempt to impose rules over international economic transactions and for small developing countries they can be an effective means for the exercise of some countervailing impact on more powerful countries and corporate actors. Trade agreements involve liberalization, which does not automatically generate growth but can do so if properly designed and accompanied by appropriate national and regional economic policies. The objective of negotiating trade agreements for developing countries such as those in the Caribbean is to promote economic development. For developing countries, trade agreements mediate the encounter with globalization and offset the power of developed countries by codifying the rules of engagement for international trade. The objective of negotiating an EPA with the EC is to increase economic growth by the expansion of trade and capital flows.

The remaining preferential treatment embodied in the trade component of the Cotonou Agreement was scheduled to end on December 31, 2007 when the WTO waiver permitting these provisions expired. The alternative to the conclusion of an EPA was either the EC GSP system which would result in incurring additional onerous tariffs which could price the exports of the region out of the EC market or an Interim Agreement which was confined to trade in goods, depriving the region of gains in services and investment. Given these alternatives the CARIFORUM countries decided to opt for an EPA thereby avoiding losses and gaining the improved opportunities to export goods and services to the large, lucrative EC market.

The overarching objective of the CARIFORUM-EC EPA is the promotion of sustainable economic development. In fact, development infuses all aspects of the EPA. This is given clear expression in (1) an overarching chapter on development, which provides a holistic approach for (2) the subject-specific measure in all subsequent chapters. The objectives of the EPA go beyond the expansion of trade to stimulate sustainable economic development to encompassing the progressive integration of the CARIFORUM countries into the world economy, the elimination of poverty and the strengthening of regional integration.

Increasing economic growth and export diversification to put growth on a sustainable basis are important goals for the CARIFORUM countries given their economic performance in recent years and the circumstances they must confront. The rate of growth of GDP during the period 1990–2005 was 2.8 per cent, which was lower than that of developing countries and small states. In addition, "average growth has slowed in each decade since the 1970's, the gap between rich and poor states in the region continues to widen, and total factor productivity appears to have stagnated."[138] Many governments are confronting difficult fiscal situations while encumbered by high levels of public debt.[139]

# XI

## CONCLUSION

*"The difficulty lies not so much in developing new ideas as in escaping from the old ones"*. J. M. Keynes

The CARIFORUM-EC Economic Partnership Agreement is an instrument which can be used by the CARIFORUM countries to strengthen and accelerate their development. The EPA provides an opportunity to export to the vast EC market for goods and services on a preferential basis. This market access will make the region a platform for exporting to the EC and should attract foreign and domestic investment. The agreement allows for a very manageable pace of import liberalization and is complemented by development assistance to support the adjustment process and the strengthening of institutional capacity. The potential benefits of the EPA will not automatically come to fruition. The extent to which these materialize will depend on national and regional efforts;

that is, the CSME and the completion of the built-in agenda of the CARICOM–Dominican Republic Free Trade Agreement. Efforts at the national level need to be conceptualized and those at the regional level need to be accelerated, in particular the long ossified CSME. All efforts must be directed at improving on a continuous basis the production of internationally competitive goods and services. The EPA constitutes a new way to mediate the engagement with the global economy and the success of this endeavour will involve new approaches which in turn require new ideas. New ideas and new policies which can achieve transformation and economic development begin with a change of mind.

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