

## EU Economic Partnership Agreements with Caribbean Countries

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### Abstract

**This paper briefly introduces the historical background of the EPAS (Economic Partnership Agreement) and signing relevant agreement with the European Union's background. The purpose of this paper aimed at analysing the Caribbean economic partnership agreement between the European Union and the impact on the Caribbean, in 2008 and after implementing the EPAS, after in the Caribbean, the advantages and disadvantages analysis showed that signing up into an EPA did bring some benefits for Caribbean countries but these benefits are very ambiguous and inconsistent. Therefore, for the whole economy, we need to think twice about this agreement on both its positive and negative effects, at the same time, signed the EPA will also have some adverse effect on the Caribbean countries. Finally, the evaluation summary is made and reasonable and effective Suggestions are given.**

### Keywords

Caribbean, European Union, EPAS, assessment.

### 1. Introduction

In the Caribbean region's foreign economic relations, the international trades are frequent between European Union and Caribbean. Currently, EU has been negotiating 'regional' trade and EPAS (Economic Partnership Agreement) with ACP (Caribbean, African and Pacific) countries. According to the previous agreements such as Lomé Conventions and Cotonou Agreement, ACP countries have non-reciprocal trade preferences and other developing countries proposed that these agreements violate the regulations of the World Trade Organization (WTO). Therefore, based on the Cotonou agreement in 2000, two parties agreed and implemented EPAS in 2008 and open bilateral free trade market in the next twelve years, which ensure the compatibility with WTO regulations and more reciprocal in nature.

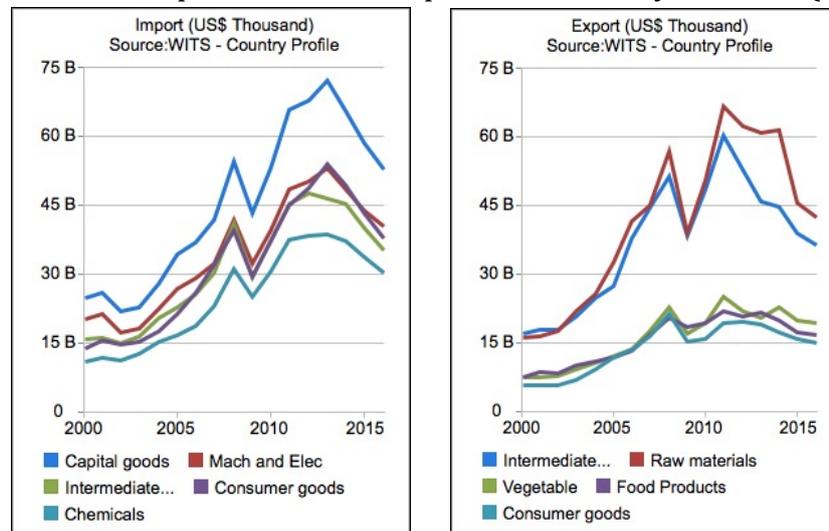
In addition to recognizing the limited effectiveness about non-reciprocal preferences and the liberalization of tariff and non-tariff barriers to EU exports, the Caribbean, as the part of the trade cooperation region, covers the cooperation of investment and competition under WTO compatibility, including government procurement, services, information technology and copyright issues. Besides, on the basis of providing better market access to the EU, we should strengthen the development of the service trade and impetus to deepening the process of regional integration among ACP groups. This report analyses the advantages and disadvantages of the EPA agreement signed by the Caribbean and gives overall assessment and policy recommendations for it.

### 2. Ambiguous Benefits

The net effects of signing up to EPAs for Caribbean countries are ambiguous. That is because we are considered to compare both effects on imports (most changes) and exports. Furthermore, values and precise details of preferential treatments are different for different

products and countries. Also, varied by country type, Caribbean countries have different alternative to ACP preferences including GSP and EBA.

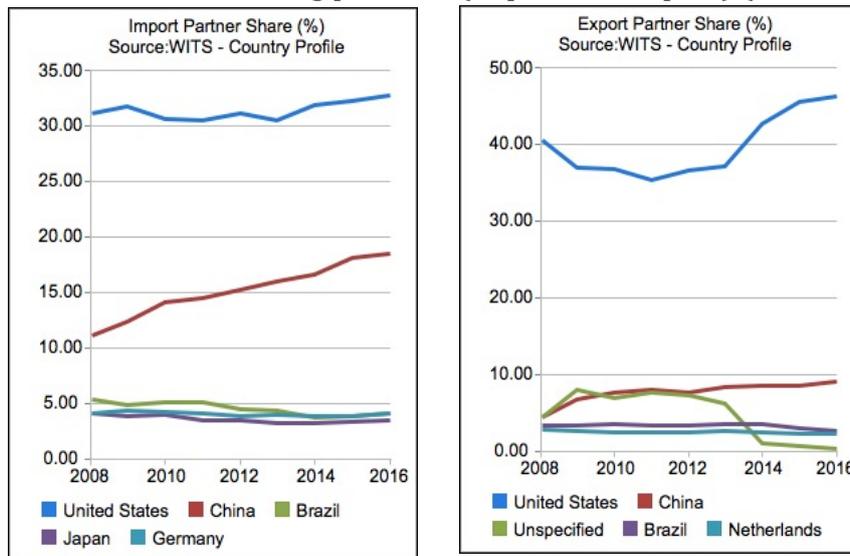
**Table 1.** Caribbean Imports from and Exports to the EU by Products (2000-2015)



The most significant benefit for Caribbean countries of integration into an EPA could be observed by trade effects. Due to small market size, Caribbean countries are highly depending on international trade. Following Gasolier and Winters (2004), signing up into an EPA tend to keep the Caribbean countries close to the top of the EU's league table of market access preferences. After analyzing data, Greenaway and Milner (2006) as well as Buses and Lushes (2007) point out that imports of Caribbean countries from the EU has increased dramatically after they signed up into an EPA. As we can see in Table 1, after CARIFORUM signing up into an EPA in 2008, both imports and exports in Caribbean with the EU increased significantly until somewhere near 2012 (the unexpected decrease in 2008 is a result of the financial crisis). That is to say, Caribbean countries did obtain trade increase with EPA preference at the beginning. To be specific, according to an EPA related document on the EU website from 2012 to 2015, the export of tea from CARIFORUM to the EU ascend steadily, with double-digit growth, reaching 89% in 2014 and nearly 200,000 in 2015. Additionally, the export of sauces, mixed condiments, and seasonings from the Caribbean has

Increased over the past years with total sales peaking at over EUR 6 million. Nevertheless, if we look at overall picture, it is noticeable that both imports and exports started to descend after 2012, showing that the benefits of EPA in terms of total trade across product for Caribbean countries may not be that permanent or consistent.

From the perspective of consumers, they should get benefits from consumption effects which comes from increased imports at reduced price. This benefit arises on the condition that the EU is the dominant supplier of Caribbean countries. However, as Table 2 shows, it is obvious that instead of the EU, the United State is the dominant trading partner with Caribbean countries. Taking the Dominican Republic as an example, the most important thing is the Dominican Republic – United States – Central America Free Trade Agreement that promote the economic growth, and persuaded the government to provide conditions to make the diversification of exports to countries outside the United States (Scheming, 2015).

**Table 2.** Caribbean trading partners (import and export) (2008-2016)

Moreover, as a special case in CARIFORUM, Haiti, which is the only least developed countries, has very little motivation to take part in the EPA. Because when the remaining tariffs and quotas of the banana, rice and sugar phased out, it would benefit more from participating in the EBA, which tend to be more generous in the future.

To sum up a little bit, signing up into an EPA did bring some benefits for Caribbean countries but these benefits are very ambiguous and inconsistent. Therefore, for the whole economy, we need to think twice about this agreement on both its positive and negative effects. It is not simply an issue with one-side impact.

### 3. Disadvantages

To large extent, signing up the EPA can also generate some adverse impacts to Caribbean countries. First of all, the reciprocity is allowed by EPA, but the cost of reciprocity exist. Due to the EPA, the Caribbean market is opened and the enter duty of imports or intermediate goods is becoming free. For example, there are 42% of the government revenues of Bahamas from import duties. Import tariffs account for around 21% of country's revenue in Dominica, Trinidad and Tobago, respectively (Buses and Grossman 2007). It implies that signing up the EPA can contribute to decrease in customs revenues, and thereby causing the fiscal losses, producing welfare losses of government. If government revenues fall, government will not have enough funds to invest and improve the infrastructure construction, health care, education and so on. It is also harmful to future development of Caribbean countries. With the increase of Caribbean market share of EU products, it makes the national producers being replaced, which means unemployment problem is more likely to occur, productive capacity decline and economic growth potential is damaged (Lodge, 2002).

In addition, the enter duty of EU will also decrease because of the reciprocity of EPA, which leads to profit losses for EU companies. Resulting from that, there will be an incentive to increase the original import tariffs to the price of the product which will be exported to Caribbean countries for the exporters of EU countries, in order to obtain the more profits. This process can be called the "pricing to market". Therefore, this "pricing to market" can lead to the welfare losses of Caribbean countries. According to the research, the welfare losses ranging between 1.9% in Trinidad and 4.5% of GNP in Jamaica will be generated by the EU reciprocity of EPA (Greenaway and Milner, 2006). Two types of reciprocity, regional Economic Partnership

Agreements (PEPAs) and extended reciprocity relationship, promote the trans-regional and trans-national trade and commercial cooperation, following that, the extra-regional trade diversion (source-switching) is increased. The cost of trade diversion exceeds the trade creation through that process, thereby the net welfare losses (Greenaway and Milner, 2006). For example, the US products occupy the 10.8 % of total imports in Trinidad and Tobago, the import products coming from EU account for the 27.21 % of total imports in Antigua and Barbuda (Gasoline and winters, 2004). Due to the higher share of trade covered by these developed countries, the more trade diversion may be produced.

Under the situation, absence of steady supply to goods and services of export, trade preference is not significant to Caribbean countries with lower level of development. ACP preferences on EPA produces a decrease of agricultural products exports and the benefits of local producers will have a negative effect. The CAP is related to ACP preferences on agricultural exports to the EU, which causes the agricultural products price beyond the world market price. It does also harm to Caribbean domestic producers and make them face an unfair competition with EU domestic producers. At the same time, because Caribbean economies are generally dominated by services, including tourism and IT, the agricultural exports to the EU reduced from 50% in 1990 to 33% in 2001, excepted sugar and bananas (Lodge, 2002).

Finally, EPA exert a negative and significant effects on export transaction costs. A decrease trade flows about time delays between exporter and importer can also affect export. According to the research of Person (2008), for exporting country, the around 1% export increase can be created, resulting from lowering border delays with one day, while the same decline in the importing country would be likely to promote around 0.5% import increase.

#### 4. Assessment and Suggestion

Considering the advantages and disadvantages above, the governments of Caribbean countries should build the pattern of future trade relations with the EU. Because of the unclear advantages of EPA (the incomplete growth of the trade effect and the consumption effects affected by the EBA agreement) and multifaceted drawbacks such as the financial losses caused by reciprocity costs, the unfair competition among the domestic producers and the reduction of trade cost guided trade caused by trade transfer, we are more likely to adopt GSP preferences and EBA preference in all CARIFORUM countries except Haiti rather than EPA. The specific policy recommendations are as follows:

First, in order to mitigate negative welfare effects from trade diversion, the Caribbean can reduce the tariff rate appropriately and switch from import tariffs to a value-added tax of all commodities. If the domestic factor market is not distorted, it is advantageous from a welfare perspective, which will have a higher consumer surplus. On this basis, we adopt value-added tax, which will offset the decline in tariff revenue. Besides, welfare costs of diverted trade can be solved by phasing of liberalization, process of MFN tariffs and trade policies towards non-EU suppliers.

Second, the trade liberalization should apply the 'gradualist' approach because it will take much time to implement the policies which are required to ease the inter-sectorial adjustment process. Based on the situation of the Caribbean, government seeks to make welfare gains through trade creation on the producer side with other OECS/CARICOM countries, because adjustment costs are inevitable. These policy measures should involve the labor market reforms and improve the mobility of labor force both between and within industries. Also, policies aim at improving the level of enterprise staff and the competitiveness of imported products and need to construct the social welfare network.

Third, the Caribbean need to increase supply and diversification of products. Over reliance on few industries such as domestic production or export makes them vulnerable to the economic

conditions of other regions. So, it is helpful to improve the regional integration and create larger regional markets by increasing supply ability and variety.

Forth, the Caribbean should arrange appropriate assistance, classifying aid levels and planning the timetable. It is very important that not only to provide financial aids, but also to share technologies.

Moreover, in order to promote regional integration, we implement the regional preferential provisions depend on political willing in the Caribbean. If necessary funding should be provided for avoiding trade diversion which benefits for EU.

In terms of alternative to EPAs, we ought to mention a replacement trade agreement with the UK post-Bruit. Preferences that are key for developing country access to the UK market will expire when the UK leaves the EU, so it is of significance to negotiate another replacement. The results of Kennan's (2016) analysis show that non-LDC (Low Development Countries) ACP countries benefit greatly from preferential access to the UK as part of EU trade agreements. It is essential that following Bruit, the UK maintains the value of these preferences.

In conclusion, as the policy choice, EPA has its limitation. Caribbean governments should be thinking carefully and weigh the opportunities and challenges in all policy options to make a decision which benefits their own countries.

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