

Overhauling The Trade Relationship Between the Caribbean, Central America and the European Union.

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For much too long, the banana wars defined the relationship between Caribbean and Central American Countries with the European Union.

Extensive Central American plantations servicing the distribution networks of large non-European multinationals faced high trade barriers in Europe.

Their lower-cost bananas had to compete against those grown in European Overseas Countries and Territories, but also in African and Caribbean countries, which enjoyed duty-free access albeit within quota limitations.

In December 2001, at the Doha Ministerial Conference, authorization was granted by the World Trade Organization (WTO) to the new trading regime between the European Union and African, Caribbean and Pacific (ACP) members of the Cotonou Partnership Agreement.

The condition for this authorization was that, by 1st January 2008, the Cotonou Trading Regime should be replaced by WTO-compatible trading agreements between the European Union and each of the six ACP Subregions: four African, one Caribbean and one Pacific.

In this fashion, EU Member States would be in a position to comply with WTO Dispute Settlement rulings against their trade regime for bananas.

Formal negotiations for the Caribbean-EU Economic Partnership Agreement (EPA)² started on 16th February 2006 and concluded on 14th December 2007.

Covering trade in goods, services and investment, as well as trade-related issues, it entered into force as scheduled, on a provisional basis, to comply with WTO requirements. It was signed later in October 2008 and ratified by the European Parliament in 2009.

Other banana exporters in Africa settled for so-called Interim Agreements, covering only trade in goods, allowing them for more time to conclude the rest of their EPA negotiations.

Resolving the banana wars by complying with WTO rulings became thus politically viable. The EU moved in Geneva and the Latin American banana exporters accepted a deal that reduced EU tariffs and enlarged quotas.

This then became the basis for further liberalization efforts in the context of the new Central America-EU Association Agreement discussed in the Forum³ organized in London by Members of the Central American Integration System (SICA) in November 2011.

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² <http://trade.ec.europa.eu/doclib/html/145879.htm>

³ <http://www.sicaforum2011.org.uk/index.php/programme>

Why Bother?

The reader may be asking: why should Europe worry about small countries such as those in the Caribbean and Central America?

It would be expected that, because of their small populations and unequal incomes distribution, their internal markets would be small.

Because of their distance from the main sources of trade and investment, higher transaction costs should result, as well as logistical difficulties for product distribution or service delivery among dispersed territories.

And while their legal regimes may be modern, it is perceived that their implementation is erratic, such that foreigners may complain about juridical insecurity.

Taken together, however, Caribbean and Central American countries are not small. Rather, they have much more potential than they would appear to have when examined individually.

Punching Above Their Weight.

Take the case of the 22 countries of the Caribbean and Central America.

Clearly, there are disparities, such as between Haiti, the poorest of the Western Hemisphere and the Bahamas, the third highest per-capita income of the Americas.

Table 1.

Latin American and the Caribbean, A Snapshot at the end of 2009

<i>Country/Region</i>	<i>Population (Million)</i>	<i>Real GDP (US\$ billion)</i>	<i>% GDP Growth</i>	<i>GDP per capita (US\$)</i>
Caribbean Community ⁴	17.1	65.8	1.3	3,840
Central America	38.6	110.6	2.3	2,940
Costa Rica	4.6	29.6	-1.1	6,400
El Salvador	6.2	22.1	2.6	3,610
Guatemala	14.4	39.0	4.0	2,850
Honduras	7.6	13.3	4.0	1,820
Nicaragua	5.8	6.6	3.5	1,160
Dominican Republic	10.2	45.5	5.3	4,580
Panama	3.5	23.1	9.2	6,790
Total	69.4	245.0	--	3,530

Source: Wolfram Alpha Database.

Their 69 million people produced US\$245 billion worth of goods and services. Not as much as Brazil, Mexico or Argentina, but certainly more than Chile, Colombia or Peru.

Their coordinated collective actions in international organizations have twisted more than one arm of heavier-weighted countries.

⁴ Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts & Nevis, St. Lucia, St. Vincent & the Grenadines, Suriname and Trinidad-Tobago.

And many an election to bodies such as the UN Security Council or the International Court of Justice has been lost by much less than the 22 votes these countries can deliver if, and when, they are courted adequately.

Moreover, Caribbean and Central American countries are right at the centre of transport routes between Europe and North America and developing country markets in Latin American and the Asia/Pacific region.

This fact, sadly, is a source of security challenges for the sub-region. For its central location has turned it into a favoured transit point for illicit substances towards Europe and North America.

And while interdiction efforts will always be needed, new trading activities need to be developed soon. If not, our societies will have to continue to deal with the tumour-effects of having a share of our population supporting the transit of illicit substances through our territories.

Diversifying Trade Through Development-Enhancing Agreements⁵.

The EU, by resolving the banana wars after concluding the Caribbean-EU EPA and then negotiating the Association Agreement with Central America, has provided a major element in the response to the challenge of trade in illicit substances.

The Caribbean-EU EPA, for instance, liberalizes commercially-relevant goods, services and investment for the Caribbean. It provides for duty-free, quota-free market access for the entire universe of agricultural and industrial products, with the most convenient rules of origin ever offered a group of developing countries.

Our EPA also liberalizes substantially all trade in services as well as foreign direct investment. The EU liberalized almost completely two of the so-called “modes” for trade in services (cross-border and consumption abroad), as well as the commercial presence for Caribbean firms in Europe (also known as investment).

A very generous degree of liberalization was also tabled for the one mode of delivery where Caribbean countries are most competitive: movements of natural persons. Quota-free market access will be available for a number of contractual-service suppliers as well as independent professionals in areas such as architecture, engineering, medicine and nursing.

And most non-professional activities are also covered, including our top priority, entertainment. Our bachata, merengue, soka or reggae bands will have now the right to enter the European market.

The movements of natural persons are by definition temporary, not exceeding six months per year. As such, they are an alternative to permanent migration. It remains to be seen if any visa restrictions will be used as a means for nullification, non-violation or impairment of the concessions we have been granted.

⁵ A more detailed evaluation of the Caribbean-EC EPA is provided by Americo Beviglia-Zampetti and Junior Lodge (2011): *The CARIFORUM-EU Economic Partnership Agreement: A Practitioners' Analysis*. Kluwer Law International BV, The Netherlands.

Such an outcome should ensure more socially just trading conditions. When individuals, whether professional or not, are able to also enjoy the benefits of trade liberalization, our export profile should change in a way that reaches a larger share of the population. After all, remittances are already our second largest source of export revenue. But these depend, unfortunately, on the increasingly unlikely prospects for migration.

Pro-Competitive Liberalization.

Unprecedented rules have been agreed by both parties to regulate investment and trade in services in a pro-competitive manner. Investors won't be allowed to gain a commercial presence by lowering environmental or labour standards or by engaging in corruption.

Sectoral rules on computerized services, courier services, financial services, maritime transport and tourism services will ensure that liberalization is not hampered by any form of anti-competitive practice or discriminatory regulation.

This is the kind of trading regime the Caribbean needs to reach higher levels of growth and development. Services are already the present of our economies, which need so much to complement our reliance on commodities such as bananas, while countering the above-mentioned temptations created by the transit of illicit substances through our region.

Competition will be promoted, also, through the cooperation activities to be undertaken jointly, in order to combat the effects on international trade of anti-competitive practices.

Cohesive Liberalization.

Our EPA will provide a major impetus to the creation of a truly regional market. As a result, local firms can expect to realize economies of scale on a regional basis.

By covering third-generation issues, such as services, investment and competition policy, local firms can expect to address regional needs on a more comprehensive basis than would have been the case through the traditional focus on market access liberalization for trade in goods. Foreign firms locating in any member country can also expect to service freely the needs of the other countries of the region.

Until our EPA, this ideal view of regional integration was far from becoming real. Through the "regional preference" clause included in our EPA, whatever the Dominican Republic granted Europe not only for trade in goods but also for services and investment will also be granted to the rest of the Caribbean. And vice versa.

Having liberalized more than our neighbours, surely it is likely this should reinforce their trade surplus with the Dominican Republic. Any remaining concerns about the effects of this clause should be put to rest.

A more cohesive region should thus emerge, fostered also by the binding commitments on developing the trading infrastructure we need so urgently as well as by new investment flows in such strategic sectors as telecommunications, energy and all modes of transport.

What Next?

The banana wars ended. The Caribbean-EU EPA is a reality. As presented at the SICA Forum in London, the other element in the overhaul of our regional relationship with Europe should have been finalized in a satisfactory manner: the Central America-EU Association

Agreement. And yet, as of February 2012, the EU official web pages⁶ had little new to say on the matter:



Negotiations for the CA-EU Association Agreement were launched in Vienna in May 2005 and concluded in Madrid in May 2011. Because Central American Countries do not belong to the Cotonou Partnership Agreement, their Association Agreement with the EU had to include also provisions on cooperation and political dialogue. According to the EU it is currently undergoing legal review.⁷ In a welcome development, Panama is also included.

At the SICA Forum in London, Central American and European negotiators conveyed their expectation for the trade provisions of their agreement to enter into force provisionally by July 2012. European negotiators, however, shared the only details available to this diplomat so far on the specific benefits of this agreement.

Initially, its rules on trade in goods provide “enhanced” access only for those Central American products already eligible under the GSP Plus regime.⁸ As for the rest of the non-agricultural products, access into the European market will be liberalized over ten years.

For some, this transitional period should avoid the sudden erosion of the privileges that Caribbean and other ACP countries enjoy by virtue of the EPA and the Interim Agreements. Clearly, however, this will delay the diversification of Central American exports to Europe.

No additional information has been found about the liberalization granted to specific sectors or modes of delivery in services, investment or government procurement.

As for its definitive entry into force, according to the Costa Rican Embassy in Belgium “the Trade Part of the Association Agreement between Central America and the EU is expected to be applied by the middle of 2013.”⁹

⁶ http://eeas.europa.eu/ca/eu_ca_negotiations_en.htm

⁷ <http://trade.ec.europa.eu/doclib/html/147000.htm>

⁸ Until December 31, 2013 according to Regulation (EC) n° 732/2008 of the Council, modified by Regulation (EU) n° 512/2011 of the European Parliament and the Council of May 11, 2011.

⁹ <http://costaricaembassy.be/en/trade/aacue/>

Not having a final text to evaluate, it is difficult to do justice to the outcome of a six-year negotiating process.

But if the Caribbean and Central American region is going to punch above the weight of our smaller countries, the expectation should be for a faster convergence between the Caribbean-EU EPA and the CA-EU Association Agreement.

Overhauling the trade relationship between the Caribbean, Central America and Europe requires that any good or service should circulate freely between any of our 22 countries, as well as between our countries and the EU.

All countries should be able to play by the same rules and enjoy the same privileges, so that the promise of freer trade opens the door to the realities of economic diversification and development.

The sooner we achieve this, the better for the prosperity and security of our peoples and countries.

And for overcoming the legacy of the banana wars.