
The impact of the EPAs of the Cotonou Agreement on trade, production and poverty alleviation in the Caribbean region

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Background

- Under the Cotonou Agreement the EU and the African, Caribbean and Pacific (ACP) countries are committed to negotiating Economic Partnership Agreements to come into force by 2008.
- The objective of these EPAs is to facilitate the integration of the ACP countries into the world economy. Specifically, by:
 - **Fostering and supporting greater regional integration,**
 - **allowing a flexible liberalisation of trade in goods and services,**
 - **building up institutional capacities and**
 - **the establishment of simple and transparent rules for business,**
 - **via development assistance provisions.**
- Aim of the research is to consider the implications of the preferential liberalisation of trade in goods implied by the EPAs on trade, production and poverty with particular reference to the small OECS economies in the Caribbean.

Overview

- Three parts:
 1. An analysis of the extent of and scope for regional integration:
 - **on the basis of descriptive statistics + the implementation of a more formal empirical “gravity” model.**
 2. Evaluating the potential impact of EPA-induced trade liberalisation on trade flows, prices and welfare:
 - **based on descriptive statistics + simulations of tariff reductions at a highly detailed level of disaggregation.**
 - **focus is on implications of asymmetric goods trade liberalisation**
 3. Assessing the impact of EPAs on poverty in Dominica, St. Kitts & Nevis, and St. Lucia:
 - **by using the price changes derived from (2) into a welfare impact on the basis of household data.**

Conclusions: regional integration

- Most of the Cariforum countries have already achieved a relatively high degree of integration - however note the role of exceptions/ derogations, and the explicit recognition of special and differential treatment within the region.
- For the OECS economies evidence of extent of regional integration is more mixed - however need to be careful in drawing conclusions
- importance of the region as a destination for OECS exports
- the development and successful integration of the Caribbean economies into the world economy more likely to be achieved via strengthening the process of “deeper” integration, such as the CSME or appropriate provisions in the EPAs + with appropriate development assistance.

Conclusions: Overall impact on trade & welfare

- The largest source of imports into the region is the US (~40%). The share of imports of the EU is under 15%.
- EPA induced preferential trade liberalisation is likely to engender *trade diversion* and only modest amounts of *trade creation*. The direct overall welfare effects are thus likely to be extremely small or even negative.
- Overall welfare gains substantially higher with MFN liberalisation
- EPA induced preferential trade liberalisation is likely to result in substantial losses of tariff and therefore government revenue.
- Note: simulations based on 100% and full tariff reductions and therefore should be seen as outer bounds - partial reductions yield proportionately smaller results

Conclusions: impact on poverty

- For the OECS the decline in poverty arising from lower prices is likely to be fairly small.
 - **this is largely because of the relatively small importance of the EU in total imports and consumption**
 - **partly also to the relative importance of food items in the island's consumption basket**
- The gains in living standards should be felt by all sectors of society though slightly more for those who are poorer. This is because of the greater importance of food items in the consumption baskets.
- There is some evidence that the welfare gains tend to be highest: in households with less well educated heads of the h/hold; male headed households; rural households; households with smaller numbers of dependents

Some caveats...

- Important to note the diversity across the Caribbean region:
 - in terms of policy implementation (eg. distinction between LDCs and MDCs)
 - in economic size and structure, and patterns of specialisation
 - in trade patterns
 - in nature of existing regional trade agreements (CSME, OECS, Caricom-DR FTA)
- The role and significance of services
- Do not consider the issue of changing access to the EU market which are likely to be important in certain sectors (eg. changes in banana and sugar regimes).
- No treatment of domestic production & employment changes
- The impact of liberalisation on productivity and long run rates of growth → “dynamic” effects

Some policy implications...

- If the welfare gains are small this raises the question of the desirability of the agreement. This in turn will depend on (a) what the alternatives are; (b) the key features of any agreement; (c) other developments in Caribbean trade policy:
 - importance of strengthening the process of deeper integration both intra and inter-regional + understanding better which are the key aspects of this of relevance for the Caribbean economies
 - importance of appropriate agreement on services
 - importance of MFN liberalisation
 - role of development assistance and aid w.r.t capacity building, support for institutions, supply side constraints
- “Substantially all trade”
 - → issues of definition + agreement on acceptable (common?) lists
- Closely related to this is the issue of special and differential treatment.
 - the case for SDT needs to be carefully made: infrastructure, institutions, size/location?
 - introducing diversity in trade rules / tariff lines likely to increase distortions and inefficiencies ∴ ideally to be avoided and/or make them time delimited
 - possible application of SDT via implementation of development assistance and aid