

Towards Development-Enhancing Economic Partnership Agreements (EPAs).¹

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***Abstract.** To negotiate new trading arrangements with the European Union is a contractual obligation for the Group of States of Africa, the Caribbean and the Pacific (ACP). The new trading arrangements are evolving towards Economic Partnership Agreements (EPAs), under negotiation by each one of the six ACP regions. As part of the Caribbean region, the Dominican Republic seeks an EPA that would enhance rather than distort development by: 1) Ensuring better access for our goods and services exports as well as for our investment flows; 2) Protecting and promoting competition among the Parties; 3) Guaranteeing the coherence between the requests received and the concessions granted; 4) Promoting a greater degree of cohesion among our countries; and 5) raising our competitiveness at the firm, sectoral, national and regional levels. The Cotonou Partnership Agreement mandates us to negotiate these new trading arrangements with trade liberalization as a means for development rather than as an end in itself. To realize this mandate we need to adapt the European experience to our realities, incorporating into the EPA negotiations the main elements of their own development dimension: cohesion and structural adjustment funds, and the so-called “Lisbon” Strategy for competitiveness.*

0. Preamble.

Exports from ACP countries have a decreasing market share in Europe. The development of ACP countries is, in general, stagnant, with a few exceptional cases of sustained growth and increasing standards of living. ACP countries exemplify the whole variety of economic and political governance, from strong democracies to *de facto* regimes that, in some cases, are trying to pacify cruel and lengthy civil wars. The social picture is not more positive, with pandemics such as HIV/AIDS continuing its growth while the coverage of the basic health and education services required for their mitigation continues to be insufficient. It is not surprising that the vast majority of ACP countries are net capital exporters towards the developed countries. But which country can develop without reinvesting its own capital into its own productive process? Which country can increase its participation in international trade without diversifying exports qualitatively and quantitatively?

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Which country can generate the confidence required by the international community without an adequate degree of governance or without the social policies that would ensure the harmonious development of all of its citizens?

The Cotonou Partnership Agreement is the legal instrument that links ACP Countries with the European Union (EU). Signed in 2000 and ratified in the Dominican Republic (DR) in 2002, Cotonou has three basic pillars: political dialogue, economic and trade cooperation and financial cooperation. These three pillars form one important basis of our joint response to this rather diverse reality, full of challenges, that characterizes the ACP Group.

In this context, to negotiate a new trading arrangement with the EU is not an option for any ACP Country, least of all for the DR. Our trading relationship in Cotonou seeks to facilitate our smooth and gradual integration to the world economy (Cotonou, 3.II.34.1)³. Such integration seeks to replace the present preferential trading regime, which is incompatible with WTO rules, for a reciprocal one, compatible with multilateral provisions on regional trading agreements.

In the present preferential trading regime, ACP States, of which the DR is a member since 1990, enjoy tariff-free access into the EU without having to grant the same treatment to EU products imported into our countries. When reciprocity prevails, which is foreseen to take place as of 1 January 2008 (Cotonou, 3.II.37.1), ACP States will have to grant the same treatment, whether immediately or after a transition period.

In the transit toward reciprocity, the 79 ACP States sought in a first phase to negotiate jointly with the EU to preserve the solidarity that has always existed between this rather diverse set of countries, in which we have island states, land-locked countries, large resource-rich developing countries, countries still defining their borders and, in particular, 39 out of the 49 Least-Developed Countries (LDCs) in the world.

However, the negotiating process evolved naturally during a second phase, which ended in December 2005, towards a regionally-based organization: 4 in Africa, the Caribbean and the Pacific. Even if some consider this to be an attempt against the traditional value of ACP solidarity, it is obvious that this organization allows for a more agile and precise response to the particular needs of each region. It will thus be possible, in this fashion, for those who are ready by the deadline to enjoy the advantages of a new trading relationship with the world's main trading block. What would be the advantages that we could envision would arise as a result of these negotiations? What challenges would we have to face during the process?

1. Cotonou Mandates a Development-Enhancing Negotiation.

When introducing reciprocity in our economic and trading relationship with the EU, EPAs will place all parties on equal terms without their being equal among themselves. To compensate for this inequality is an ethical requirement of the process, in order to

³ Cotonou Partnership Agreement, Part 3, Title II, Article 34, paragraph 1.

ensure the equity that should prevail in our international relations. To achieve such equity is possible if we comply strictly with Cotonou's negotiating mandate. The outcome should be a set of development-enhancing, rather than development-distorting EPAs.

Cotonou reflects explicitly the commitment with development as the final ends of the ACP-EU relationship:

“2. ... Given the current level of development of the ACP countries, economic and trade cooperation shall be directed at enabling the ACP States to manage the challenges of globalisation and to adapt progressively to new conditions of international trade thereby facilitating their transition to the liberalised global economy. (Cotonou, 3.II.34.2)

3. To this end economic and trade cooperation shall aim at enhancing the production, supply and trading capacity of the ACP countries as well as their capacity to attract investment. It shall further aim at creating a new trading dynamic between the Parties, at strengthening the ACP countries trade and investment policies and at improving the ACP countries' capacity to handle all issues related to trade.” (Cotonou, 3.II.34.3).

“New trading arrangements” will be the main instrument for such cooperation. Of the various possible options for economic and trade cooperation, the negotiation of EPAs has prevailed among the parties, subject in Cotonou to a set of principles clearly aimed at enhancing the competitiveness of our countries, seeking to address “...supply and demand side constraints. In this context, particular regard shall be had to trade development measures as a means of enhancing ACP States' competitiveness...” (Cotonou, 3.II.35.1).

From the successful example of the EU, regional integration is considered in this process to be a key tool for the insertion of ACP States into the world economy, allowing them to face global challenges from a perspective that is wider in scope than the more limited national markets (Cotonou, 3.II.35.2).

Decades, even centuries of indifference towards trading relationships with each ACP neighbor must be overcome promptly to allow us, in a regionally-integrated fashion, to advance towards a new interregional relationship with the EU that would smooth our insertion into the world economy, overcome our institutional and productive deficiencies and, eventually, become competitive.

Special and differential treatment will be taken into account (Cotonou, 3.II.35.3), as well as the need to preserve the benefits arising from the Commodity Protocols once reformulated in the context of the EPAs in order to ensure their WTO compatibility (Cotonou, 3.II.36.4). This sole principle justifies amply the negotiation of EPAs because, as of their entry into force, our countries will be free from the requirement to seek costly “waivers” from WTO rules in order to continue to enjoy our market access conditions.

Cotonou's development-enhancing formula is clear: to preserve and to increase our market access into the EU in a WTO-compatible fashion. To heed the call of globalization through our deepened regional integration and our eventual integration with

the EU. To overcome the institutional and productive deficiencies of our countries, thus improving our competitiveness. And to smooth the transition costs for our sensitive sectors, by ensuring special and differential treatment.

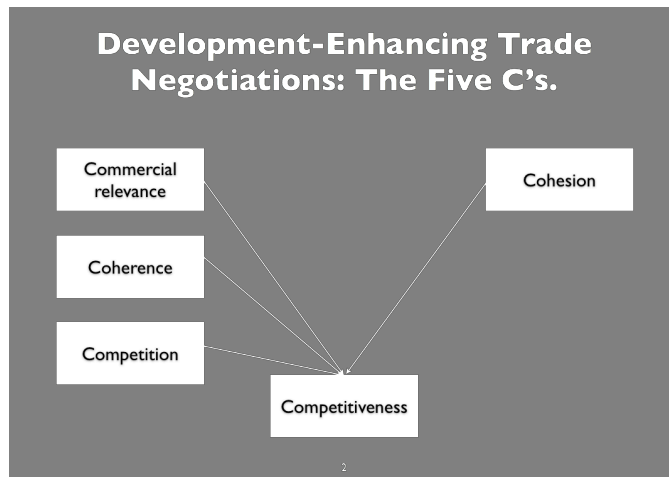
How do we then realize this formula in the context of the EPA negotiations? Is this a challenge to be resolved only by ACP countries? Or should the ACP work jointly with the EU on this novel approach, in the framework of that “true, strengthened and strategic partnership” proposed by Cotonou (3.II.35.1)?

2. The 5 Cs Model.

The European experience of development in the context of regional integration provides the best response to this question.

In seeking an equitable relationship between existing and new members, the trade dimension of their relations is compensated by a highly effective development dimension.

Translating this experience to the ACP realities, from a Caribbean perspective, allows us to propose that EPA negotiations should be guided by the so-called 5Cs model of commercially-relevant commitments, coherence, competition, cohesion and competitiveness.



a) Commercially-Relevant Commitments.

ACP countries need concrete new opportunities to increase their exports. We thus expect to receive liberalization commitments from our European partners in agriculture, industrial products, services, investment and government procurement that would eliminate all tariffs, quotas, licenses or discriminatory regulatory barriers applicable to our goods and services, whether exported presently or with a potential in the future.

It is not enough to preserve preferential access, because such access has not prevented the decline of our market share of EU imports. To revert this trend requires that we increase the number of products that we are able to export without limitations.

This requires further a simplification of rules of origin and a deepened cooperation for the reciprocal compliance with sanitary and phytosanitary standards as well as with technical barriers to trade.

This requires, lastly, a comprehensive geographical coverage for the rights and obligations arising from the EPAs, binding not only for the Economic Commission, the EU and its member states at the national level, but also for any sub-national political unit,

outermost regions and the overseas countries and territories which are, in most cases, our first port of entry into the EU market due to their proximity with our countries.

b) Coherence.

The European side reclaims insistently a simple, single trade regime from our side. Their request seeks to ensure free circulation for their goods, services and investments in any ACP region. In this fashion, any European product that would arrive to an ACP country would be able to continue without any further impediment into any other country belonging to the ACP region in question.

It is not clear to us, however, if such a claim will be applicable to ACP exports and investments into the EU. The coherence of the process requires that what is being requested from us be also granted to us, not only for our goods but also for our investments and services, whether provided by the physical presence in EU territory by natural persons on a temporary basis.

c) Competition.

To eliminate trade barriers without protecting free competition would be a grave mistake that would leave exposed a plethora of anticompetitive practices affecting international trade. These practices result in abuses of dominant position due to the vertical integration of distribution chains of commodities or tourists; in price cartelizations in the provision of international transport services; or in the monopolistic price-fixing behavior of energy services or pharmaceutical products. Being the EU not only the main source of foreign direct investment (FDI) flows in the world, but also the main exporter of goods and services, it is not surprising their leadership in promoting the negotiation of trade and competition in every forum they participate.

From the ACP point of view, however, the issue of trade and competition must not seek only to eliminate the competitive barriers that may exist in our markets to facilitate the penetration of foreign suppliers. The issue should be, also, a major means to preserve the right to compete locally, regionally and interregionally for our suppliers, all of which are smaller than the smallest of European suppliers, once EPAs enter into force.

d) Cohesion.

Regional integration in ACP countries could be further accelerated if EPAs would include binding commitments on cohesion. In the EU, cohesion seeks to facilitate the economic convergence towards the average level of per-capita income prevailing in the region. Eligible countries are those with a level of per-capita income lower than 90% of the average. Subject to their compliance with a convergence program, such countries receive funding for panregional infrastructure projects as well as for the preservation of the environment.

This novel mechanism has proven to be highly successful in accelerating the growth of eligible countries acceding to the EU since 1986. And because they are subject to the compliance with convergence programs as a function of the relative levels of per-capita income, its duration will be limited in time.

To deepen the integration of the ACP countries without a mechanism for cohesion will leave our regions without the panregional infrastructures or without the mechanisms for the preservation of the environment that will be required to better serve the needs of EU markets or, more immediately, to increase our attractiveness for foreign investors that would seek to take advantage of the opportunities created in our regions as a whole.

e) Competitiveness.

All the elements of the model should converge in this major outcome, without which realization of the promises of a development-enhancing process of trade liberalization would be impossible. For eliminating barriers of international trade would, in theory, provoke a convergence of productivity levels between firms producing those products that would survive the liberalization process. Thus, to become competitive, in all of its dimensions, becomes the most urgent priority for our countries as already reflected in Cotonou.

At the firm level, convergent productivity levels would be impossible without new technologies, managerial capacity building or retraining of the labor force, if we are to take advantage of the economies of scale provided by the enlarged regional and EU markets.

At the sectoral level, intra and intersectoral linkages need to be set and strengthened, resulting in clusters that would better spread to the rest of the ACP economies the impact of each percent increase of our exports.

At the national level, it is imperative for ACP countries to reduce the “country cost” of doing business, by tackling the rigidities in key sectors such as energy, financial and telecommunications and transport services.

At the regional level, competitiveness can only increase by ensuring a strengthened cohesion among member states, increasing the frequency of flights and shipments; by reducing the cost of intraregional transport; and by catering to the vast support-infrastructure needs of these sectors.



But these 5 Cs are insufficient to ensure a development-enhancing EPA. Other elements are needed to complete a strong development dimension, again reflecting a very simplified adaptation of the successful EU experience to ACP realities.

3. The Development Dimension.

In addition to the cohesion funds, ACP countries will require funding

for structural adjustment. To bring into the EPAs the Commodity Protocols at the same time the WTO is expected to be concluding the present round of multilateral trade liberalization will result in a severe case of preference erosion that will imply a further, and sudden, decrease in the share of the main ACP exports into the EU market, such as bananas, sugar or rum.

Tariff elimination will require deep fiscal reforms to reduce the high degree of tariff dependency that continues to exist in most ACP countries. This will have to transform the tax profile, hopefully resulting in a more progressive system for an increased degree of social cohesion.

To implement the EPA will also imply costly legal and institutional reforms. These are all the elements of the transition cost towards free trade that our countries will have to face. EPAs should include, in our view, binding commitments to tackle these transition costs, in the same manner they are addressed by the EU: through structural adjustment funds.

Effective internal market	Boosting innovation
Free and fair trade	Strengthened productive base
Better regulation	More and better jobs
Improved infrastructure	Adaptable workforce
Investment in R & D	Better education and skills

The other component of the development dimension that we would like to see built into the EPAs is an adapted version to our ACP realities of the so-called “Lisbon” Strategy for competitiveness. Its formulation and implementation by the EU demonstrates clearly that there is a role for the State in the promotion of competitiveness. If a group of developed countries such as those belonging to the EU have had to conceive such a strategy to face the challenge of competing with China, India, Japan or the US, it is clear that ACP countries should study carefully this case and, if possible, find the ways and means for its inclusion into EPAs, as well as for their effective institutionalization at both national and regional levels.

4. Immediate Challenges.

If the prerequisite to advancing further in this process is a deepened regional integration of ACP countries, it is clear that each region still has to dismantle the remaining internal barriers to their own countries’ trade in goods and services as well as for their investment flows and government procurement. The case of our Caribbean region was best described by the Dominican Secretary of Foreign Relations, Carlos Morales Troncoso, in his speech to the Cariforum Ministers:

“We do not yet have the common rules required to consolidate our Caribbean bloc. We signed the Free Trade Agreement between the Caribbean Community and the Dominican Republic in 1998, thanks to the leadership of our Heads and of our President, Dr. Leonel Fernández, then in his first, non-consecutive term in office. This agreement was a big step at the time. But it is far from representing the set of rights and obligations that would

ensure the free circulation of goods, services and capitals in the region. To try to amend it to achieve such freedom is not a viable option in the short term, in spite of the progress made to date and to the positive impetus behind the ongoing efforts. It is urgent, therefore, that we be bold and ambitious, because it is obvious that there is another alternative that could provide immediate results. What if we considered the Dominican accession to the Caribbean Single Market and Economy (CSME)? Wouldn't this be a more logical option to consolidate our regional integration and to create the enabling environment for negotiating with the European Union as a truly unified bloc? Why don't we consider this seriously during our sessions? Why don't we agree a detailed schedule and work program to make it real?" (Morales Troncoso, 2005: 4).

If we are to work in strengthening this true and strategic relationship between ACP countries and the EU, it is urgent for us that, during the review of EPA negotiations foreseen for the final months of 2006 the Commission receives a wider negotiating mandate, in order to better reflect the development-enhancing mandates of Cotonou examined earlier, as well as for the concrete needs that have been identified thus far, among which: to negotiate a sufficiently broad investment chapter in EPAs that would eliminate the need to negotiate any new BITs in the future; and to represent the OCTs in EPA negotiations.

Once we have these new mandates, we will be in a position to work in common texts for the EPAs as well as in exchanging specific commitments that would satisfy our expectations.

Finally, having in mind the recent discussion of the Joint Council of Ministers ACP-EU in Port Moresby on the 10th European Development Fund (FED), to have truly development-enhancing EPAs will require certainly a stronger financial commitment to EPA implementation.

Let us work, then, in realizing this strategic and strengthened partnership. Let us comply with the development-enhancing mandate of Cotonou. Let us provide EPAs with the development dimension we need if we are ever to join, finally, the ranks of the developed countries.

5. Sources.

Cotonou (2000): *Cotonou Agreement*. Brussels: European Commission. Available in the internet through the link http://ec.europa.eu/comm/development/body/cotonou/agreement_en.htm

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