



Trade Hot Topics

Strengthening Caribbean-EU Economic and Trade Relations Post-COVID

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1. Introduction

The year 2021 marks the dawn of a new era in the Caribbean's relations with the European Union (EU). The United Kingdom (UK) has left the EU and signed its own partnership agreement with Caribbean countries in March 2019. Meanwhile, market access to the EU remains constrained by non-tariff barriers despite implementing the Economic Partnership Agreement (EPA) for more than a decade, and the new partnership agreement between the EU and the Organisation of African, Caribbean and Pacific States (OACPS), will guide Caribbean-EU relations over the next twenty years (EU and OACPS, 2021)². Since the first partnership agreement — the Lomé Convention — the relationship between the regions has shifted profoundly: from a 'special relationship' centred on non-reciprocal preferential trade and development aid to a gradual erosion of preferences under the Cotonou Partnership Agreement and the attendant EPA.

The relationship has now charted new territory, one that the EU describes as a 'partnership of equals' and an end to 'donor-client' relations. The intent

is to move beyond the colonial past, charitable links and one-way association to establish a more balanced partnership that reflects the interests of both partners whilst giving Caribbean countries the means to achieve sustainable development. The new EU-OACPS Partnership Agreement thus focuses on regional development priorities, with the Caribbean and the EU committing to work together in confronting some of the world's most acute challenges, such as climate change, migration, peace and security and sustainable economic growth and development.

The successful implementation of this new Partnership Agreement will also be crucial in supporting recovery from COVID-19. The pandemic has dealt a major blow to the economic growth prospects of Caribbean countries given their dependence on tourism, one of the sectors most impacted by travel restrictions and lockdown measures. Thus, the commitment under the Agreement to bolster investment to promote and develop tourism products and services, and to promote sustainable and innovative forms of tourism, will no doubt be useful. The digital

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² The EU-OACPS Partnership Agreement is set to take effect later this year pending approval from the relevant parties. The draft text was initialled in April 2021. Its predecessor, the Cotonou Agreement will officially expire in November 2021.

economy and environmental provisions will also be integral in building a sustainable, resilient economy post-COVID-19 as they aim to support the digital transition and lay the foundation for transitioning to the green and circular economy.

Against this backdrop, this issue of the Commonwealth's *Trade Hot Topics* takes stock of Caribbean-EU relations to date with the intent of assessing what these new developments signal for their economic relations moving forward. It begins by revisiting the historical linkages between the two regions and how their partnership evolved from Lomé to the Cotonou agreement and the EPA. Thereafter, it examines the implications of Brexit and the new EU-OACPS Partnership Agreement for future economic relations. It concludes with policy recommendations for Caribbean countries to strengthen and extract value from their partnership with the EU post-2021.

2. From Lomé to Cotonou: Caribbean-EU relations from a historical perspective

2.1 Lomé: A privileged partnership

The Caribbean's engagement with the EU is framed primarily through its association with the OACPS (formerly ACP).³ ACP countries, being former colonies of some EU member states, have enjoyed special relations with the EU in terms of both trade concessions and development finance. Their first partnership agreement, the Lomé Convention, was signed in 1975 and was renewed on three separate occasions: 1981, 1985 and 1989. Lomé granted duty-free, quota-free market access for commodity exports (including rum, sugar and bananas) from the ACP. ACP producers were also guaranteed prices above world market values and were compensated for any shortfall in export earnings due to fluctuations in commodity pricing. Additionally, through the specially created European Development Fund (EDF), aid was disbursed for infrastructure development, humanitarian emergencies and regional integration projects within the ACP (Flint, 2009; Heron, 2010).

Lomé established a 'unique bond' between the ACP and the EU. Given the political climate in which the agreement was negotiated,⁴ the ACP was able to gain important concessions from the EU such as non-reciprocal trade preferences and development assistance. Despite these preferences, Lomé did not deliver on its principal objective of promoting economic growth and diversification within the ACP. ACP countries also failed to improve their trade performance with the EU. In 1975, ACP exports accounted for 3.5 per cent of the EU's total imports; however, by 1992, that share had declined to 1.5 per cent (Cosgrove, 1994). This policy failure fuelled anti-Lomé sentiments among some constituents within the EU. The discriminatory nature of Lomé concessions also became contentious, especially among developing countries not afforded similar preferences for their exports, notably bananas. A series of trade disputes were brought before the World Trade Organization (WTO) and its predecessor, the General Agreement on Tariffs and Trade (GATT), which led to the WTO ruling in 1997 that Lomé was incompatible with the Most Favoured Nation (MFN) principle. Lomé discriminated in an arbitrary way between ACP and non-ACP countries at similar levels of development (Flint, 2009; Heron, 2010). Shared history was not considered an objective basis for granting preferences. The Lomé Convention was subsequently terminated.

2.2 The Cotonou Partnership Agreement and EPA: 'End of a special relationship'

The Lomé Convention was replaced by the Cotonou Partnership Agreement (CPA), signed in 2000. Whilst the CPA maintained a commitment to development and the provision of development aid, it differed from Lomé. It was based on three intersecting pillars – political, economic and development cooperation – with an overarching aim of alleviating poverty and advancing the UN Millennium Development Goals and later the Sustainable Development Goals. The agreement further imposed political and economic conditionalities with respect for human rights,

3 OACPS and ACP are used interchangeably throughout the text. The OACPS member countries are Angola, Antigua and Barbuda, Belize, Cape Verde, Comoros, The Bahamas, Barbados, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Congo (Brazzaville), Congo (Kinshasa), Cook Islands, Côte d'Ivoire, Cuba, Djibouti, Dominican Republic, Equatorial Guinea, Eritrea, Eswatini, Ethiopia, Fiji, Gabon, The Gambia, Ghana, Grenada, Republic of Guinea, Guinea-Bissau, Guyana, Haiti, Jamaica, Kenya, Kiribati, Lesotho, Liberia, Madagascar, Malawi, Mali, Marshall Islands, Mauritania, Mauritius, Micronesia, Mozambique, Namibia, Nauru, Niger, Nigeria, Niue, Palau, Papua New Guinea, Rwanda, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, Solomon Islands, Samoa, São Tomé and Príncipe, Senegal, Seychelles, Sierra Leone, Somalia, South Africa, Sudan, Suriname, Timor Leste, Togo, Tonga, Trinidad and Tobago, Tuvalu, Uganda, United Republic of Tanzania, Vanuatu, Zambia and Zimbabwe.

4 Lomé was negotiated amidst the Cold War, the 1973 oil crisis and calls by developing countries at the United Nations for a New International Economic Order in 1974, which demanded that developed countries make fair the terms of trade between the North and South. The EU, at the time, sourced most of its raw materials from the ACP and was thus concerned about the future security of supplies.

democratic principles and the rule of law, dubbed the essential elements of the partnership (Kennes, 2018; Flint 2009).

The CPA laid the foundation for the negotiation of EPAs, which are WTO-compatible trade agreements. Despite the EU's optimism that EPAs would be signed by all ACP regions by 2008, only the Caribbean (through CARIFORUM)⁵ signed a comprehensive agreement by the specified date. The EPAs remain contentious for many ACP countries as they are said to do little to level the playing field between the EU and the ACP since they require reciprocity. The CARIFORUM EPA has also been criticised on the basis that it has gone beyond the liberalisation of trade in goods to cover services as well as new generation issues such as intellectual property rights, competition and government procurement (Flint, 2009; Heron, 2010; Kennes, 2018). CARIFORUM negotiators, however, saw the EPA as a useful tool for fostering regional economic development and integration, trade expansion and attracting foreign direct investment (FDI) (Bernal, 2013; CRNM, 2008).

The EPA's services provision was also lauded, given CARIFORUM's competitive advantage in services trade. All CARIFORUM countries except Dominican Republic, Guyana, Suriname and Trinidad and Tobago are primarily services-oriented economies. Services output relative to total gross domestic product (GDP) for CARIFORUM countries was over 60 per cent between 1996 and 2004 and has risen since that time (CRNM, 2008). Tourism and travel-related services dominate the region's services trade, and prospects for increasing trade in professional services as well as cultural and entertainment services were also identified at the time of the EPA negotiations. The region was thus able to secure an agreement that committed to liberalising trade in services, covering all modes of services supply under the General Agreement on Trade in Services (GATS). The agreement was also novel in its introduction of a cultural protocol. The EPA's cultural provision represents the first time that a trade agreement has incorporated the United Nations Educational, Scientific and Cultural

Organization (UNESCO) Convention on the Promotion of Cultural Expressions. The EU, under this provision, committed to extending preferential market access to artists, musicians, authors and performers from CARIFORUM (Burri and Nurse, 2019). But how has the region fared under the EPA?

3. CARIFORUM's trade performance under the EPA

It has been more than 12 years since the EPA was signed, and it has yet to deliver the expected gains for the Caribbean. There has been no increase in merchandise trade, and services trade remains constrained by non-tariff barriers including EU visa requirements and a lack of mutual recognition agreements.

3.1 Merchandise trade

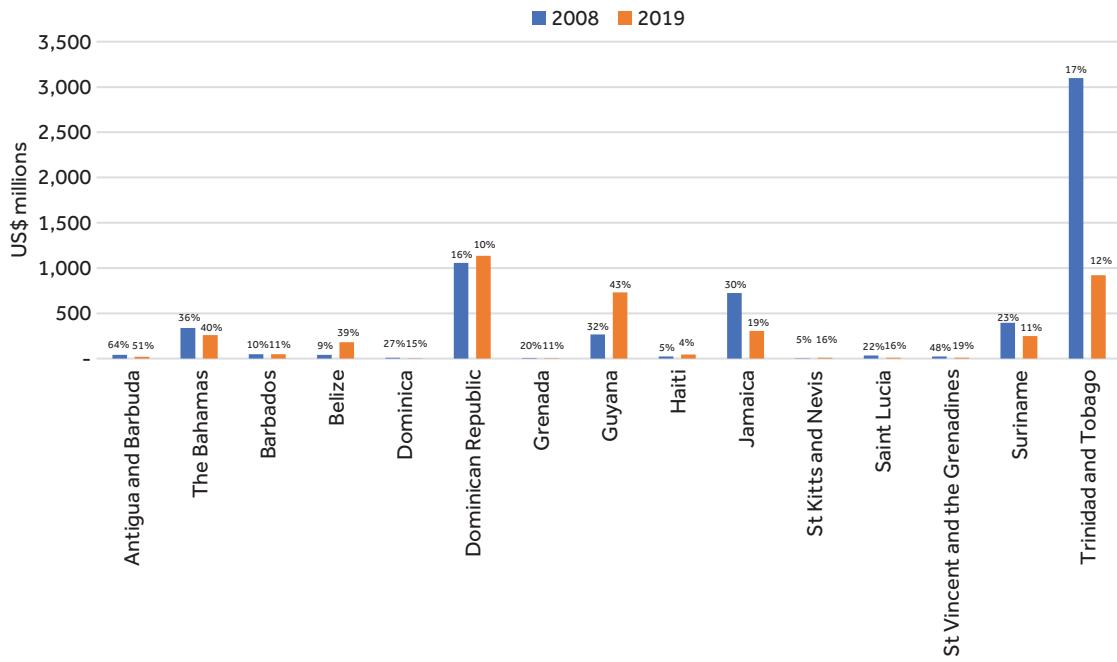
Relative to its exports to the rest of the world, CARIFORUM's merchandise exports to the EU have not increased in importance since 2008. Rather, their share fell from 15.7 per cent in 2008 to 12.4 per cent in 2019. In value terms, goods exported to the EU (inclusive of the UK) declined from US\$6.1 billion in 2008 to \$3.9 billion in 2019. Commonwealth countries – Saint Lucia, St Vincent and the Grenadines and Trinidad and Tobago – experienced the sharpest declines (see Figure 1). The diminishing importance of the EU as a market for CARIFORUM goods is driven by both an overall increase in CARIFORUM exports to other partners⁶ and a decline in exports to the EU. The latter is said to have been driven by the fall in fuel prices, though non-fuel exports are still below pre-EPA levels (European Commission, 2020). Fuel exports represented 42 per cent of export values in 2008; however, that share declined to less than 10 per cent in 2019 (see Figure 2).

Notwithstanding the aggregate decline in merchandise trade, results vary at the country level. Exports to the EU over the past decade have increased for Commonwealth countries Belize and Guyana. Exports have also marginally increased for Barbados, Jamaica and St Kitts and Nevis. These variations are driven largely by the differences in the

5 The Caribbean Forum (CARIFORUM) is comprised of Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, Suriname and Trinidad and Tobago.

6 The United States has been the primary market for CARIFORUM countries due to its size, close proximity and ease of doing business, including similarities with markets, language, time zone as well as lower transportation costs due to better logistics. Canada is also a major partner for similar reasons. Whilst these countries remain the primary export markets for CARIFORUM, the region has increased its trade with non-traditional partners particularly in the Latin American region. This is driven mainly by Dominican Republic, which has increased its exports of pharmaceuticals and medical instruments as well as beverages and cocoa to partners such as Mexico and Panama. In the case of the Dominican Republic, the geographical proximity and ease of doing business thanks to language also apply to Latin America.

Figure 1. CARIFORUM merchandise trade with the EU28 (2008 vs 2019), US\$ millions



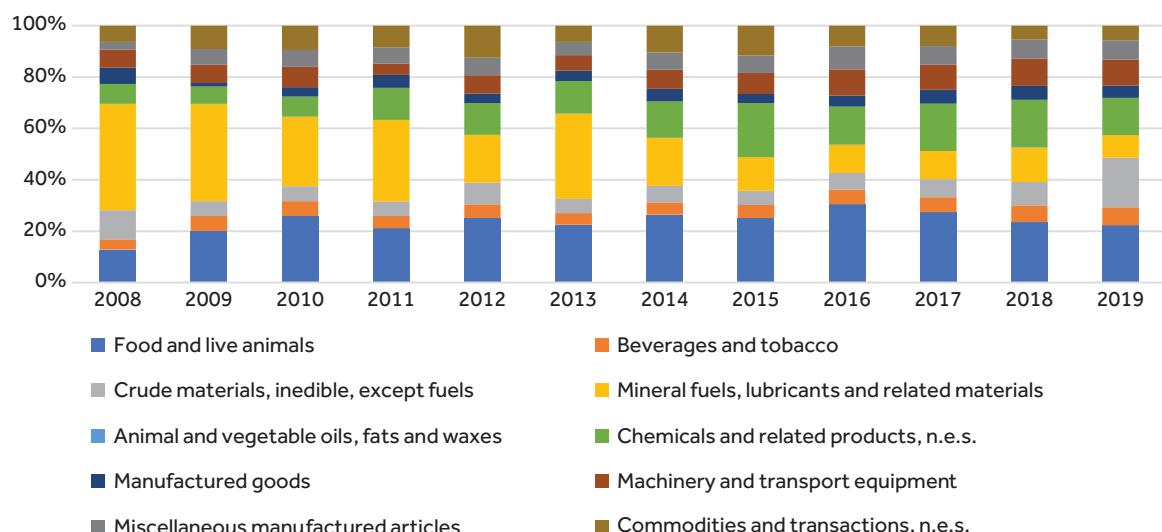
Note: The percentages above the bars represent the share of the country's total merchandise export to the EU in 2008 vs 2019.
Source: Author's calculations using data from UNCTADstat.

composition of exports across Caribbean countries and the increase in demand for certain products in the EU, notably food, live animals and chemicals and related products (see Figure 2). Regarding food and live animals, there has been a strong increase in the demand for fish and crustaceans of which Belize is a major exporter (European Commission, 2020). Guyana also exports primarily food and live animals to the EU. The increased demand for chemicals and related products has been met by Trinidad and Tobago. The top merchandise exporters from the region to the EU are The Bahamas, Dominican Republic, Jamaica and Trinidad and Tobago.

3.2 Services trade

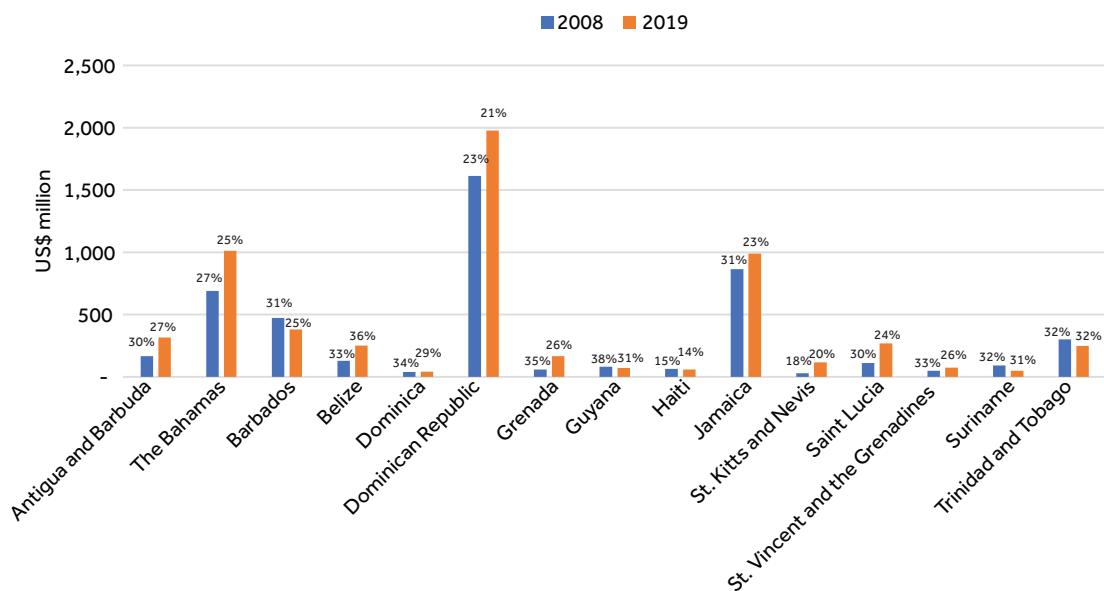
Services trade paints a different picture to that of merchandise trade. There has been an overall increase in CARIFORUM services exports to the EU, from a share of 49 per cent of total exports between 2005 and 2007 to 55 per cent in the period 2017 to 2019. Tourism services are the most significant export by CARIFORUM countries, followed by information and communication technologies (ICT) from Belize, Jamaica and St Kitts and Nevis, and insurance and financial services from Antigua and Barbuda and St Kitts and Nevis. The increase in CARIFORUM services trade with the EU is driven

Figure 2. CARIFORUM merchandise exports to the EU28, by product category



Source: Author's calculations using data from UNCTADstat.

Figure 3. CARIFORUM services trade with the EU28 (2008 vs 2019), US\$ millions



Note: The percentages above the bars represent the share of the country's total services export to the EU in 2008 vs 2019.

Source: Author's calculations using data from UNCTADstat.

largely by a drastic increase in services trade for The Bahamas after 2014 and Barbados after 2017. The reason for the spike in these two countries is unclear due to missing services trade data. Furthermore, if the spike is not taken into account, then "the importance of the EU as a trading partner for CARIFORUM in trade in services is largely similar to what it was at the start of the implementation of the EPA" (European Commission, 2020).

Caribbean services exporters are also constrained by the EU's domestic legislation, including a lack of mutual recognition of professional qualifications, lengthy and complicated authorisation procedures and stringent immigration policies. In fact, the EU's complex immigration policies have been a major obstacle in realising the benefits of cultural cooperation. The Protocol on Cultural Cooperation has yet to be activated — especially the provisions related to the movement of artists and co-productions in the audio-visual sector (UNESCO, 2019). It is for these reasons that caution should be exercised in attributing the increase in services trade to the EPA (Schmieg, 2015). These and other issues have surfaced in the post-Cotonou negotiations, as discussed further below.

4. Implications of Brexit for CARIFORUM-EU economic relations

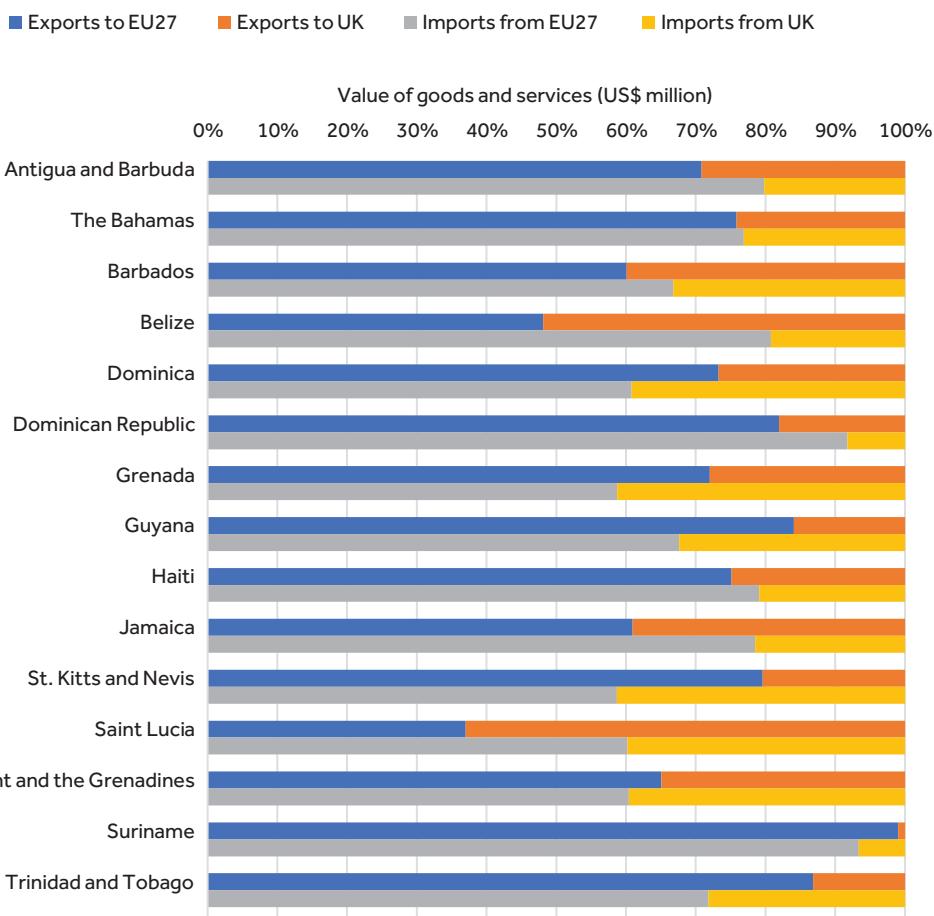
Caribbean-UK trade represented a key aspect of the Caribbean-EU relationship. Consequently, Brexit will affect the economic value of the partnership with the EU. In 2019, CARIFORUM goods and services exports to the UK were worth

US\$2.3 billion, with services accounting for just over 80 per cent (\$1.9 billion) of that total. The largest service sectors are tourism-related travel and transport. For both Belize and Saint Lucia, the share of the UK in their goods and services exports to the EU is above 50 per cent (Figure 4). The UK is also a major export market for The Bahamas and Jamaica. For Commonwealth Caribbean countries, the top exported products to the UK include bananas from Belize and Saint Lucia and sugar cane from Guyana and Jamaica, as well as rum from the latter. Trinidad and Tobago also exports gas and organic chemicals.

Given the significance of the UK market to CARIFORUM countries, trading with the EU without the UK will mean a smaller, less attractive market. It is for this reason that some have argued that there might be a case for renegotiation/review of the CARIFORUM-EU EPA as the concessions and tariff commitments made at the time of signing the EPA would now be in exchange for far less (Bilal and Woolfrey, 2018). However, the review of tariff concessions does not seem likely, especially given that the UK and CARIFORUM signed an EPA in 2019 that gives CARIFORUM countries similar preferences to those granted under the EU EPA. A review of CARIFORUM-EU EPA rules of origin (RoO) might, however, be necessary.

The UK is also a key entry point for goods from the Caribbean destined for the EU27. As such, the new border clearance requirements along the UK-EU border are likely to affect Caribbean exporters. As one example, road hauliers have

Figure 4. CARIFORUM trade with the EU27 and UK (2017–2019 average, US\$ million)



Source: Author's calculations using data from UNCTADstat.

been pushed to avoid cargo groupage⁷ out of fear that if documentation for even one consignment within the load is not compliant, administrative complications could arise. These challenges have begun surfacing along the UK-Ireland border. As of 1 January 2021, the Irish Government, as mandated by the UK-EU Trade and Cooperation Agreement (TCA), began applying standard EU export controls on goods entering from the UK. Physical inspections are taking place on up to 50 per cent of consignments and have resulted in significant delays at the ports. Caribbean exporters are being affected. The new RoO in the TCA will also impact Caribbean producers. The TCA does not include provisions for diagonal cumulation.⁸ Therefore, inputs from third countries, such as

those in the Caribbean, will not be counted as 'originating inputs' unless they undergo 'sufficient processing'⁹ in the EU/UK. Thus, Caribbean exports could face MFN tariffs (EPA Monitoring, 2021a).

These new RoO will directly impact the Caribbean's rum, sugar, horticulture and rice value chains. For example, Caribbean bulk rum bottled in the EU27 as 'own label' products for onward shipment to UK supermarkets will be affected. Insufficient transformation takes place in the bottling process to gain EU originating status. A similar situation applies to raw sugar refined in the UK for onward shipment to the EU. This will be particularly disruptive to the Belize fair trade sugar where refining takes place at Tate and Lyle in the UK.

7 Cargo groupage is one of the practices used by logistics and transport companies to guarantee swift and economical shipments. While the cost per cubic metre is higher than sending a full container with one single load, this is the best option when dealing with small loads. It means that any cargo that is not big enough to fill a container is added to other cargo with the same route to make the transport economically viable.

8 Diagonal cumulation refers to a provision under a trade agreement between more than two countries that allows member countries to use products originating in a defined country or countries, not a party to the agreement, without the final goods losing their originating status.

9 Sufficient processing/transformation can be defined in three ways: (i) value added, which requires that a proportion of the final value of the product be added in the exporting country; (ii) Change in Tariff Classification (CTC), which requires that the final product be sufficiently different from the imported materials so that it moves to a different tariff classification altogether; and (iii) specific processing or manufacturing, which typically applies where value-added or CTC rules may not adequately determine originating status and where specific processes are required to meet originating criteria.

Additionally, Caribbean cane sugar used in food and drinks manufactured in the UK for shipment to the EU will be affected. To avoid these complications, Nestle UK and Nestle Ireland have announced their intention to switch to EU-produced beet sugar (EPA Monitoring, 2021b). This is concerning for the Caribbean as more than 70 per cent of all sugar consumed in Europe is in manufactured food and drink products (EPA Monitoring, 2021a). Caribbean producers are thus being urged to re-open trade negotiations with the EU and the UK in a bid to secure automatic cumulation (*ibid*).

As the EU and Caribbean countries pivot their relations in a new direction with the recently concluded EU-OACPS Partnership Agreement, the next section explores the dynamic of the partnership moving forward and the extent to which the issues raised above have been considered.

5. EU-OACPS Partnership Agreement: A new strategic direction?

The new EU-OACPS Partnership Agreement, which was officially concluded in April 2021, will guide the Caribbean's relations with the EU for the next 20 years. The agreement is symbolic of continued cooperation under the current OACPS structure, albeit the relevance of the group being scrutinised in the lead up to the negotiations. The nature of the partnership has altered fundamentally. The centre of gravity has shifted from an all-ACP group to regional partnerships. That is, the new agreement has been structured such that there is a common framework agreement covering all countries of the OACPS plus three separate regional protocols that set the strategic priorities for Africa, the Caribbean and the Pacific. By focusing its attention at the regional level, the EU hopes to advance its ambition of establishing a 'partnership of equals', taking into account the regional differences and priorities. For the Caribbean, its strategic priorities are, *inter alia*, deepening economic relations, improving environmental sustainability and climate resilience and building inclusive, peaceful and secure societies.

5.1 International trade

It is important to highlight that the new partnership agreement is inherently political and, as such, trade only features indirectly. The agreement will not replace the EPAs, which are self-standing agreements, but will support efforts to better implement the EPAs. Under article 13 on trade co-operation, the parties have committed to supporting the implementation of the CARIFORUM-EU EPA by reinforcing its

effectiveness and commercial relevance as a tool for promoting sustainable development. They have agreed to co-operate in enhancing national and regional productive and regulatory capacities to facilitate greater trade flow and increase investment in value-added sectors of the economy.

To this end, the agreement gives special attention to trade in services, notably tourism, financial services and cultural and entertainment services. With respect to tourism, the agreement commits to promoting the balanced and sustainable development of tourism to foster inclusive economic development, bolster investment to promote and develop tourism products and services as well as promote all innovative forms of tourism (EU and OACPS, 2021). Whilst the latter has not been clearly defined, one would hope that the use of digital technology will be employed to promote the region's tourism product, such as virtual reality. Virtual reality substituted for in-person travel and tourism experiences in some countries during the pandemic and could be utilised by the Caribbean for branding and marketing purposes in a post-pandemic world. The increased impetus in supporting services-led growth in the Caribbean is especially crucial given the impact the pandemic has had on services in general and tourism in particular. The sector is the lifeblood of economic activity in the region and, therefore, renewed commitment to improving services trade is necessary for recovery from the pandemic. As highlighted in Box 1, services could potentially offer a new model for economic transformation in the region.

Barriers to services trade, and especially the need for mutual recognition agreements, are also addressed in the new partnership agreement. This is especially critical given that the lack of mutual recognition of professional qualifications is still a sore point of the EPA. Except for architectural services in CARIFORUM, no work is ongoing to foster negotiations on a mutual recognition agreement between the CARIFORUM states and the EU (European Commission, 2020). The absence of mutual recognition of professional qualifications can prevent trade in some services sectors. Therefore, the renewed commitment under the new partnership agreement provides the perfect opportunity to reignite these discussions. At the same time, it is also important to highlight that the easing of visa restrictions to facilitate the free movement of service providers remains a sensitive issue and is not addressed under the new agreement.

Box 1: Could services be the new development model for the Caribbean?

The services sector is reshaping the economic landscape globally as well as in the Caribbean. Services comprise an increasing share of the region's trade with the EU, as well as with other trading partners, and account for as much as 75 per cent of GDP for some smaller countries in the Eastern Caribbean. The region's primary services export is tourism; however, there is potential for growth in higher value-added services such as information and communications technology (ICT) and financial services. Moreover, digitalisation and advances in digital technologies mean many of these types of services are increasingly delivered digitally, enabling cross-border trade in a wider range of services. The services sector has created large-scale employment, generated revenues (foreign exchange earnings), attracted significant FDI and accelerated economic growth in the region. In fact, services arguably offer stronger prospects for driving economic transformation in Caribbean countries than other conventional paths to development such as manufacturing-led growth or export-oriented industrialisation. The latter, which has been key to the rapid economic transformations seen in the so-called East Asian tigers (Hong Kong, Singapore, South Korea and Taiwan), might not be best suited for countries in the Caribbean region as their economic profiles differ. Service is the dominant economic sector in the Caribbean, yet it remains an underexplored component of economic transformation strategies.

Services have become increasingly tradable with globalisation and rapid digitalisation, and the perception that developing countries have little to gain from this sector no longer holds true. Services can enable economic transformation both directly (through job creation and revenue generation) and indirectly (as inputs in the production of goods or as part of global value chains). As such, Caribbean policymakers should explore the possibility of a services-led economic transformation model. Effectively implementing such a strategy is contingent on diversifying the services sector and developing a whole-of-government approach to strengthen specific services and promote services exports. This will be dependent on the availability of sufficient data on both the production and use of services by firms, as well as on the quality and substance of services-related policies. The availability of data on services trade is currently a challenge that needs to be addressed. There is also the need to solicit private sector engagement and to ensure that services-led growth operates in conjunction with other policies to ensure a balanced growth path (Hoekman and de Velde, 2017).

5.2 Digitalisation and the green economy

In addition to the above, the agreement also commits to enhancing digital support frameworks with specific provisions on connectivity, ICT and the digital economy. The CARIFORUM-EU EPA is the only EPA with a chapter on e-commerce; however, the relevant provisions have not been fully implemented and some CARIFORUM countries continue to apply customs duties on electronic deliverables. Moreover, according to the most recent EPA implementation review, CARIFORUM's effort in implementing the e-commerce provisions are 'insufficient to maintain dialogue with [the EU] on regulatory issues raised by electronic commerce and to exchange information on legislation regarding electronic commerce and consumer protection' (European Commission, 2020, p.19). Similarly, the EU's effort in maintaining this important regulatory dialogue has been unsatisfactory. Whilst the report did not say why CARIFORUM's effort in implementing the e-commerce provisions has been lethargic, it is safe to assume that this was not as important

a priority for the region as it is today and will be in the post-pandemic future. COVID-19 has shifted the tides and brought about an increased appetite for digital trade. The new EU-OACPS Partnership Agreement is replete with language promoting cooperation in the digital sphere; from reaffirming the importance of the digitalisation of the economy in accelerating productive capacity development, to developing information societies and reducing the digital divide (EU and OACPS, 2021). Leveraging digitalisation is an important tool for COVID-19 recovery (Commonwealth Secretariat, 2021).

The environmental provisions in the new partnership agreement will also be key in building sustainable, green economies post-pandemic. The parties have committed to invest in green growth and to promote circular economies by supporting the transition towards climate-resilient and low-emissions development. They have agreed to collaborate on initiatives such as the adoption of clean and environmentally sound technologies and industrial processes, exchange of best practices

and the rationalisation of inefficient fossil fuel subsidies. Additionally, through what has been dubbed a 'polluter pays' principle, industries and businesses whose economic activities result in environmental pollution (which will be clearly defined) will be held to account for their actions. The intent is to ensure that economic growth fully complements environmental sustainability (EU and OACPS, 2021). This is imperative especially as the pandemic has challenged all facets of human life and thus calls on countries to build back better, more inclusive, sustainable and resilient economies.

5.3 Financial co-operation

Another distinctive feature of the post-Cotonou Agreement is the absence of a financial co-operation section. The agreement terminates the European Development Fund (EDF), which was the main source of the EU's development finance to the ACP for more than 60 years. Disbursement of aid will now be channelled through the Neighbourhood, Development and International Cooperation Instrument (NDICI), also known as 'Global Europe'. The EU has combined all its external financial instruments under this one umbrella, which it believes will lead to better, more efficient management of its financial resources. The NDICI is fully integrated into the EU's Multiannual Financial Framework budget, thus allowing the EU Parliament to have oversight of funding priorities (European Commission, 2021). OACPS member states will no longer co-manage funding as was the case under the EDF.

The OACPS has raised concerns regarding this new structure. With the EU's continued emphasis on security and controlling illegal migration, there is a fear that its aid commitment in these areas will trump its commitment to sustainable development (Parandii, 2020). If this holds true, the implementation of the CARIFORUM EPA could be affected. The region relies on funding from the EU to implement the key provisions in the EPA, and limited aid-for-trade resources is a major shortcoming. The EU has, however, maintained that over 90 per cent of its spending will be official development assistance (ODA) that targets economic and sustainable development (*ibid*, 2021). Even then, the new EU strategy regarding the deployment of aid will impact the Caribbean. In 2011, the EU introduced the principle of differentiation in foreign aid based on income levels. As all the CARIFORUM countries except for Haiti are middle-income countries this could

potentially result in the progressive graduation of most Caribbean states out of eligibility for EU aid.

Caribbean countries have stressed the need for a universal economic vulnerability index that considers other measures of vulnerability, as income level alone does not adequately capture the situation of countries in the region. Caribbean countries are predisposed to certain structural vulnerabilities such as climate change and natural disasters and are characterised by a high debt-low growth trap, which the pandemic has further underscored. There is thus a plausible case for the region's continued access to ODA. Support from multilateral institutions such as the Commonwealth Secretariat will be crucial in highlighting this issue. The Secretariat continues to champion the needs of small and vulnerable states and has embarked on developing a multidimensional vulnerability index that Caribbean countries will find useful and may provide an alternative measure in determining access to aid resources.

Another area of concern that surfaced in the new partnership agreement is that of tax/financial governance. It thus includes provisions to address tax governance and tax abuse, calling on the parties to implement measures to combat illicit financial flows, tax fraud and tax evasion and reduce opportunities for tax avoidance, including through bilateral and multilateral consultations. Some Caribbean countries have been listed by the EU as non-cooperative tax jurisdictions, which has generated concerns by CARIFORUM as it threatens to undermine international financial services, one of the few thriving sectors (Carbone, 2020; Nurse 2019). It will be important to monitor how this specific provision will be applied, especially amid on-going international efforts to develop a global tax strategy.

6. Way forward

This issue of *Trade Hot Topics* has examined Caribbean-EU economic relations from a historical perspective and provides an overview on the way forward as indicated in the new EU-OACPS Partnership Agreement. Despite having preferential market access to the EU from the time of the Lomé Convention and, more recently, the EPA, the region's overall trade performance with the EU has not improved discernibly. Merchandise trade, in particular, has been on the decline. However, trade in services has steadily increased and offers prospects for further growth. Despite this, the region's services exports to the EU are

constrained by non-tariff barriers, including a lack of mutual recognition agreements and stringent visa requirements. The new OACPS partnership agreement has committed to addressing some of these concerns, notably the need for mutual recognition agreements. It provides yet another opportunity to drive the EPA agenda forward, promoting services trade, digital trade and circular economy principles — all of which are critical for recovery from the pandemic. Notwithstanding this, there is still considerable work to be undertaken by Caribbean countries to strengthen their economic engagement with the EU amid the repercussions of Brexit as well as to ensure that the provisions in the new partnership agreement are not merely ‘best endeavour’ but are translated into concrete action. The region should therefore consider the following as it moves forward:

- Resolving the disruption to triangular supply chains caused by Brexit
- Strengthening regional integration
- Using digitalisation to strengthen and diversify exports.

Resolving the disruption to triangular supply chains caused by Brexit

In charting the way forward, the most important goal for the Caribbean should be to engage in dialogue with the EU and the UK to remediate the disruption in supply chains caused by Brexit. Brexit remains the most pressing challenge confronting EU-OACPS relations, yet it was noticeably absent from the new Partnership Agreement. Whilst this is somewhat understandable given that the UK-EU Trade and Cooperation Agreement was being finalised at the time of the post-Cotonou negotiations, the issue now needs to be looked at with urgency. The added documentary requirements and new RoO in the TCA have disrupted triangular supply chains. The TCA does not include diagonal or full cumulation provisions, which means CARIFORUM inputs used in the UK’s or EU’s exports to each other (UK-EU/EU-UK) will be subject to tariffs. The UK had proposed that inputs purchased from all developing countries should be eligible for cumulation under the TCA; however, the EU rejected this proposal (EPA Monitoring, 2021a).

CARIFORUM could, however, engage in further dialogue with the EU to include diagonal cumulation provisions specific to the UK in the CARIFORUM-EU EPA. This would allow Caribbean goods to continue to enjoy duty-free access to the EU market even when insufficient processing has been

undertaken in the UK. With respect to the UK, its EPA with CARIFORUM provides for EU content and processing to be recognised (i.e., cumulated) in the UK and CARIFORUM states’ exports to each other (see Title II of the agreement). However, it does not provide for either party’s direct trade with the EU including, for example, where UK exporters or those based in CARIFORUM states use content from each other in exports to the EU (Department for International Trade, 2019). Therefore, CARIFORUM countries should engage in further dialogue with the UK to address the latter.

Additionally, Caribbean exporters should consider exploring alternate trade routes to avoid delays in getting their goods to the EU amid the new and onerous documentary requirements along the UK/EU border. Routing goods through markets other than the UK might be feasible for those Caribbean countries with adequate maritime connectivity (such as Jamaica and Trinidad and Tobago) to major markets in Europe and less so for smaller states with limited shipping connectivity. Those CARIFORUM exporters with the wherewithal to reroute exports must proceed with caution as there has reportedly been an unprecedented hike in freight rates along some trade routes triggered by the pandemic (UNCTAD, 2021). Governments should also continue to raise awareness of these added bottlenecks in UK-EU trade to encourage exporters to prepare for and make adjustments as necessary.

Strengthening regional integration

The Caribbean’s trade performance under the EPA has been underwhelming, despite enjoying duty-free and quota-free market access to the EU. Whilst this is partly a consequence of existing non-tariff barriers within the EU – including stringent immigration policies affecting services exports, the absence of mutual recognition certificates and difficulty complying with sanitary and phytosanitary (SPS) measures and other technical standards – it underscores a much deeper issue within the Caribbean. That is, the need to address persistent supply-side constraints and to diversify exports towards higher value-added products. With regards to supply-side capacity, many countries within the region cannot compete within the EU market due their small size. Only the larger economies such as Dominican Republic and Trinidad and Tobago have been able to capitalise on the EPA. There is thus a need for further co-ordination at the regional level to enhance production scale and deepen the Caribbean’s integration into the

global economy. The region should prioritise the implementation of the Caribbean Single Market and Economy (CSME).¹⁰ The CSME, if implemented, could allow for productive activities to be focused at a regional level rather than nationally. This would mean greater specialisation in production based on competitive advantage whereby firms can establish themselves in territories where there is access to raw materials, skilled labour and other means of production (Thorburn, et.al, 2010). It would also make it easier for Caribbean manufacturers to attain economies of scale in production.

However, to date, progress towards the CSME, a critical aspect of the Caribbean's integration process, has been slow. Some Caribbean Community (CARICOM) member states have not followed through on their regulatory commitments, which need to be accelerated. There is also limited specialisation in higher value-added goods in the region. Traditional products such as food products as well as minerals and fuels continue to dominate commodity exports from the region. The lack of diversification of exports has limited Caribbean countries' potential to fully penetrate the European market and has also hindered the region's economic growth prospects. Therefore, the Caribbean should prioritise and take ownership of its regional integration agenda.

Using digitalisation to strengthen and diversify exports

The COVID-19 pandemic has underscored the importance of digitalisation as an enabler of economic growth and sustainable development. Since the pandemic, ICT has been utilised to foster business continuity and is likely to remain integral in post-COVID-19 recovery and well after the pandemic has subsided. The Caribbean has a relatively high penetration of internet access, with close to 62 per cent of the population having access. This is higher than the world average as well as the Commonwealth average, which are 51 and 48 per cent, respectively. Some Caribbean countries, such as Jamaica (74 per cent) and Trinidad and Tobago (75 per cent), are also ranked above the world average for 2020 on the UNCTAD Business-to-Consumer (B2C) E-Commerce Index (UNCTAD, 2020). This is indicative of a good level of readiness to engage in e-commerce. The region

has the potential to unlock and harness the benefits of e-commerce, including in cultural goods, given the large Caribbean diaspora in the EU and the UK. However, to do this, Caribbean countries need to create an enabling environment for e-commerce and eliminate obstacles to e-commerce adoption. The region should therefore make use of the e-commerce chapter in the EU EPA to support well-needed regulatory reform to facilitate digital trade. Likewise, the utilisation of provisions in the new partnership agreement to support digital transformation and to address the digital divide should be paramount. Digitalisation can aid in transforming economies, build resilience to future shocks and help countries within the region better integrate into supply chains. It also has a key role to play in the delivery of services, particularly in the case of cross-border trade in services via Mode 1.

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¹⁰ The CSME is an arrangement between CARICOM countries to establish a common market/single market and eventually an economic union that would allow for the free movement of goods, services, people, capital and technology. The treaty establishing the CSME was signed in 1989 and covers consumer affairs, competition policies, social security, contingent rights, immigration arrangements for free movement of persons, administrative arrangements for commercial establishment, government procurement, trade and competitiveness in CARICOM.

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International Trade Policy Section at the Commonwealth Secretariat

This Trade Hot Topic is brought out by the International Trade Policy (ITP) Section of the Trade Division of the Commonwealth Secretariat, which is the main intergovernmental agency of the Commonwealth – an association of 54 independent countries, comprising large and small, developed and developing, landlocked and island economies – facilitating consultation and co-operation among member governments and countries in the common interest of their peoples and in the promotion of international consensus-building.

ITP is entrusted with the responsibilities of undertaking policy-oriented research and advocacy on trade and development issues and providing informed inputs into the related discourses involving Commonwealth members. The ITP approach is to scan the trade and development landscape for areas where orthodox approaches are ineffective or where there are public policy failures or gaps, and to seek heterodox approaches to address those. Its work plan is flexible to enable quick response to emerging issues in the international trading environment that impact particularly on highly vulnerable Commonwealth constituencies – least developed countries (LDCs), small states and sub-Saharan Africa.

Scope of ITP Work

ITP undertakes activities principally in three broad areas:

- It supports Commonwealth developing members in their negotiation of multilateral and regional trade agreements that promote development friendly outcomes, notably their economic growth through expanded trade.
- It conducts policy research, consultations and advocacy to increase understanding of the changing international trading environment and of policy options for successful adaptation.
- It contributes to the processes involving the multilateral and bilateral trade regimes that advance more beneficial participation of Commonwealth developing country members, particularly, small states and LDCs and sub-Saharan Africa.

ITP Recent Activities

ITP's most recent activities focus on assisting member states in their negotiations in the World Trade Organization and various regional trading arrangements, undertaking analytical research on a range of trade policy, emerging trade-related development issues, and supporting workshops/dialogues for facilitating exchange of ideas, disseminating informed inputs, and consensus-building on issues of interest to Commonwealth members.

Selected Recent Meetings/Workshops Supported by ITP

29 July 2021: Revitalising Commonwealth Trade Post-COVID: Leveraging Maritime Trade and Shipping. The webinar discussed the findings of our recent study on the impact of COVID-19 on maritime trade. It explored the maritime trade landscape in the Commonwealth and demonstrated how maritime trade and shipping can help revitalise Commonwealth trade post-COVID.

13 July 2021: Launch of the *Commonwealth Trade Review*. The 2021 Review presents new empirical findings on the impact of the pandemic on Commonwealth trade and outlined practical recommendations to boost trade recovery and build resilience, including harnessing digital technologies, utilising post-Brexit trading opportunities and promoting more sustainable green and blue economies.

21–23 October 2020: Recovery from COVID-19 – Tackling Vulnerabilities and Leveraging Scarce Resources, organised in the framework of the LDC IV Monitor and held virtually on the road to the Fifth UN Conference on Least Developed Countries (LDC5) in collaboration with the OECD Development Centre, UN-OHRLS and FERDI.

29 January 2020: Looking to LDC V: A Critical Reflection by the LDV IV Monitor (in partnership with the OECD Development Centre and the Centre for Policy Dialogue, Bangladesh) held at Marlborough House, London, United Kingdom.

28 January 2020: Roundtable Discussion on Trade Shocks in the Commonwealth: Natural Disasters and LDC Graduation (in partnership with the Enhanced Integrated Framework) held at Marlborough House, London, United Kingdom.



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