

The Fate of Small and Vulnerable Economies in the world trade system: A Caribbean Perspective

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Introduction

The recent collapse of the Doha Development Round has turned the eyes of the world yet again to the issue of liberalization of trade in agriculture which appears to be the Achilles heel of world trade negotiations. Indeed, the world's preoccupation with the discussion of liberalization of trade in agriculture and its inability to solve the many problems and concerns raised highlights the fundamental importance and complexity of the issue. One aspect of its complexity is the developed world - developing world divide evidenced in the showdown between the US on one end and China and India on the other in Geneva this year. But another more insidious and complex aspect is the developing world divide. Most trade agreements are based on the fallacy that developing countries by far and large are a homogenous group with relatively similar interests and concerns. Reality says differently. This paper seeks to examine the experience of one group which falls under the rubric of the developing world - the Caribbean region and argues for special recognition and treatment of developing countries which can be classified as small and vulnerable economies (SVEs) by the WTO. Special focus will be paid to the region's banana industry.

Caribbean Islands as small and vulnerable economies (SVEs)

The recognition of trade-related issues of small economies based on their small and vulnerable characteristics have been examined at the international level by various organizations

including the UNDP and the World Bank.¹ Under the WTO small and vulnerable economies comprise a sub-group under developing countries however they are not afforded any special recognition or treatment. A fundamental question that arises is: what are small and vulnerable economies? Thus far no precise definition has arisen. Michael Davenport in a recent study declared that both the World Bank and the Commonwealth Secretariat have wrestled for years with the 'conceptually difficult and politically fraught' problem of defining an SVE.² Though no recognized definition exists several factors play a role in determining whether a nation can qualify as an SVE - namely size of population, shares of global trade, size of GDP, transport costs and lack of scope for economies of scale.³ According to Ford and Khaira characteristics of an SVE are related both to structure (physical area and population) and susceptibility (to climate and economic shocks).⁴

The Caribbean countries fall ideally in the WTO's subgroup of especially small and vulnerable economies (SVEs). Regrettably, the WTO does not afford the group any special recognition or treatment. According to Ford and Khaira, Caribbean economies can be classified as small and vulnerable because of their (1) physical vulnerability - the frequency of natural disasters and floods (2) small populations - total population is less than 24 million (3) openness of economy - they rely heavily on external trade because of their narrow range of resources and small scale of internal markets (4) high dependence on food imports, particularly

¹ J.R. Deep Ford and Hansdeep Khaira, 'Caribbean countries as small and vulnerable economies in the WTO', in J.R. Deep Ford, Crescenzo dell'Aquila and Piero Conforti (ed.) *Agricultural trade policy and food security in the Caribbean: Structural issues, multilateral negotiations and competitiveness* (Rome: Trade and Markets Division, Food and Agriculture Organization of the United Nations, 2007) p.56

² 'A Study of Alternative Special and Differential Arrangements for Small Economies', prepared for the Commonwealth Secretariat by Michael Davenport.

³ Gordon Myers, *Banana Wars: The Price of Free Trade* (London: Zed Books Ltd, 2004) p. 164

⁴ Ford and Khaira, *supra* note 1 at p.41

cereals (5) limited export commodity range - concentration on sugar, alcohol, tobacco and fruit (primarily bananas) (6) export market concentration - the EU and US account for more than 2/3 of Caribbean export market (7) small fragmented and highly imperfect markets (8) great dependence on revenue from tariffs (9) inflexibility for adjustment (10) high transport and transit costs and (11) lack of competitiveness.⁵ These characteristics also satisfy the factors stipulated by Myers above.

Recent events highlight the tenuous state of the region's economy particularly as regards agriculture. The Caribbean export market has been ravaged by natural disasters and further handicapped by the erosion of trade preferences. Hurricane Ivan dealt a severe blow to Grenada causing damage of US\$815 million where it destroyed 90% of the buildings and crippled the island's thriving nutmeg industry. Just recently a major Jamaican banana exporting company announced that it will no longer export bananas to the EU and the US. This stemmed from that island being battered by five hurricanes in the past four years and the erosion of trade preferences from the EU resulting from the *EC Bananas III* case. Another island St. Kitts also announced that it will no longer be exporting sugar. These are just a few examples of the threats that Caribbean economies face. However, the region's vulnerability is best showcased by the 'Banana Wars' saga.

CASE STUDY: Green Gold – From *Lomé* to Cotonou:

"I'm a strong man, a proud man, an I'm free,
 Free as dese mountains, free as dis sea,
 I know myself, an I know my ways,
 An will sing wid pride to de end o my days
 Praise God an m'big right han
 I will live an die a banana man."⁶

⁵ *Ibid* pp 43-54

⁶ Excerpt from poem "The Song of the Banana Man" by Evan Jones accessed at <http://www.pbs.org/newshour/bb/poems/jan-june01/bananaman.html> on 17/12/09

The year was 1985, the future ahead seemed bright, all cares were forgotten, all worries lost, all that mattered was “Banana day”. Then, bananas weren’t merely bananas, they were gold - green gold. The banana farmer was revered, he was free, he was noble, capable of supporting his family and forging a life of his own. More than twenty years later and things have drastically changed. Gone is the revered banana farmer, gone is the banana farmer, he is no longer free, his life is no longer his own, he can no longer chart his own future, there is no pride to live and die a banana planter. What had happened? The explanation lies outside of the banana farm. However regrettably it is in the farm that its implications are greatest felt.

Preferential treatment under *Lomé* Convention

The first *Lomé* Convention signed in 1974 was a considerable departure from previous agreements that existed between the EU and ACP countries. *Lomé*, unlike its predecessors, contained no requirement that the developing countries should give reciprocal tariff concessions in return for those that the Community provided. The Convention was a wide-ranging treaty designed to promote the economic, cultural and social development of ACP countries through comprehensive EU programmes of both trade and aid.⁷ The Convention provided that most agricultural products including bananas could enter the EU duty free. It was renegotiated and renewed three times. Each Convention included a specific protocol on bananas.

The Bananas War: Erosion of Trade Preferences - EC Bananas

There is no questioning the fact that there was a war. According to Raj Bhala there was a war. It was fought between allies. It was fought over a fruit.⁸ In 1993, the US and 5 Latin

⁷ Myers, *supra* note 3 p.40

⁸ Raj Bhala, *The Banana Wars* (2000 31 *McGeorge Law Review* 543) p.

American countries embarked on a journey that today seems never ending. The *US v EC* dilemma has spanned almost 15 years producing various panel and AB decisions, evoking considerable discussion and tension. The War seems to be ongoing, the last decision being as recent as this year. It is a complex case, however the intricacies of the case as well as the various findings concerning incompatibility with several GATT and GATS articles will not be discussed here. What is important for our purposes is the result and effect of the WTO ruling.

According to Myers, the *EC Bananas* dispute presented the acid test of the compatibility of free-trade rules of the WTO with the economic well-being of small states highly dependent on one product.⁹ The US and other Latin American countries challenged the EC system of preferential treatment of bananas from ACP countries. Citing violations of articles of the GATT particularly the MFN principle the WTO ordered that the EC bring its system in alignment with its obligations under the GATT. The decision resulted in the removal of the ACP's preferential treatment and spelt doomsday to farmers within the region

An important aspect of the *EC Bananas* dispute is the treatment of the ACP countries during the dispute. It is sad that the persons with the most at stake were given such little opportunity to play a part in a decision that threatened their survival. They were accorded third party status and thus were relegated to the same category as Japan - a non-exporter of bananas. As third parties they were not permitted to attend the organizational meetings which decided on issues affecting the conduct of the case; they were allowed to attend only selected sessions and to make a 'brief statement'. Worst of all the two private lawyers advising the Windward Islands delegation were ejected by the panel chairman.¹⁰ This scant regard raises a number of questions. What is the place of small and vulnerable economies? Are they to be

⁹ Myers, *supra* note 3 p. 2

¹⁰ *Ibid* p. 89

relegated to the back seat even in cases which are fundamentally important to their survival? What recourse do they have when the body created to protect their interests and promote their development refuses to let their voices be heard? Even if the decisions of the WTO are justifiable in light of the EC's GATT obligations, the WTO's treatment of these states cannot be justified.

Cotonou Agreement (the Economic Partnership Agreement): Colonization revisited?

In an attempt to comply with its obligations under the GATT and GATS, the EC formulated the Cotonou Agreement. Signed in 2000 this treaty concerns trade and development relations between the EU and the ACP countries. Central features of the agreement are the Economic Partnership agreements which are set to come into force this year. The agreement has been signed by the Caribbean countries (CARIFORUM) whereas the African and Pacific countries have yet to agree with the conditions of the agreements. The EPAs are intended to be instruments for development, to support ACP regional integration initiatives, to improve ACP preferential market access into the EC and to be compatible with WTO rules.

One of the key areas of concern is the return of reciprocal obligations. The EPAs envisage the creation of a free trade area between the ACP countries and the EU. Under Lome and Cotonou the ACP were required merely to treat the EU no less favourably than any other industrialized trade partner. In complete contrast, the EPAs will offer duty free access for "substantially all" EU exports to the ACP. Two results ensue - 1) there will be adjustment and fiscal costs for ACP states in the form of increased competition for domestic producers and 2) lower trade taxes for governments. Taken in the Caribbean context the second result has far reaching results since a large portion of the region's imports come from the EU coupled with the fact that tariffs on such imports constitute a considerable percentage of the GDP of most countries.

Prior to signature of the agreement, there was an overwhelming consensus that it the agreement would not be beneficial to the region. This view is understandable and indeed justifiable. Two areas of concern are (1) reciprocity (as mentioned earlier) and (2) the absence of an enforceable scheme of development. Both the Cotonou agreement and the EPAs highlight development as their ultimate goal however none of these agreements set out a scheme mapping out how the developmental goals are to be achieved. An important observation is the way in which Caribbean countries were forced to sign the agreement. Oxfam and other NGO's have been critical of the EU, over its handling of negotiations for a new trade deal with African, Caribbean and Pacific countries. Oxfam says the EU should provide binding, additional assistance to support the Caribbean to adjust to and support its economic development.¹¹ This recommendation shows the one-sided nature of the EPAs, they force ACP countries to open up their markets with no binding obligations on the EU to fulfill its promises to assist with development.

The foregoing brings to the fore the seminal issue of balance of power. Caribbean governments knew that the agreement was not beneficial to them but conceded that they could do no better. They had no power to bargain. Today, it seems that the motto for small and vulnerable economies is “take whatever you get”.

Banana today: Farewell small farmer

The Bananas War has to a large extent come to an end. What has it left in its wake? It has led to the burial of a twenty-five year old regime of trade preferences in bananas as created by the Lome Convention. It has marked the birth of a new regime of

¹¹http://www.bbc.co.uk/caribbean/news/story/2008/10/081021_epa_followon.shtml
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reciprocity, as evidenced in the one-sided Economic partnership agreements. It has also left in its wake the post-war syndrome of "banana fatigue". European countries are exhausted with the constant litigation concerning bananas additionally there has been increasing resentment for the ACP countries for their continuing insistence that trade preferences concerning bananas remain.

So who has really won the war? Studies show that all the countries except Caribbean countries have emerged victorious. According to Myers, European consumers have benefitted immensely as the price of bananas has dropped, multinational corporations like Dole and Del Monte have also done extremely well, ironically however the driving force behind the dispute Chiquita has not fared too well. As regards exporting countries, Latin American and African countries have also prospered following the agreement according to Myers. The only losers appear to be the Caribbean countries.¹² This can be best explained through the doctrine of comparative advantage which forms the core of a free-trade system. Under this doctrine each country should concentrate on producing goods or services in which it has the greatest relative efficiency, then the sum total of wealth is maximized all around.¹³ According to Myers, Latin American countries are best at producing bananas export - they have an absolute advantage in vast areas of flat land, fertile soils, a suitable climate, pools of cheap labour and reasonable proximity to the main markets.¹⁴

The Caribbean islands do not have comparative advantage as relates to banana production. This is by dint of their classification as small and vulnerable economies. In analyzing Caribbean countries Myers states that for some islands notably the Windward Islands - growing bananas is what they do best.¹⁵ There

¹² Ibid pp124-136

¹³ Ibid p105

¹⁴ Ibid

¹⁵ Ibid

is no other product, apart from Tourism, in which these islands would be more competitive and no alternative product could replace the earnings and employment that bananas provide. Indeed many islands have sought to diversify with the creation of offshore tax centres but have met with considerable hostility from the developed world particularly the OECD. Myers concedes that there is no product that can be grown in the Caribbean that cannot be grown more competitively in tropical Latin America.¹⁶ This is the province of small and vulnerable economies their handicaps of size, physical vulnerability etc - puts them at the losing end in a system based on the doctrine of comparative advantage.

The result: a mass exodus from the banana fields. Karla Slocum in an ethnographical study examined the banana trade from the point of view of locals living in the rural district of Morne Verte in St. Lucia - the largest exporter of bananas in the Windward Islands. She explored how St. Lucian farmers confront deleterious shifts in international trade policies, the initial response being to fight but the final response being to give up. She referred to John who in 1994 had farmed his own land, five years later he has given up the banana trade and was now a security officer. Reference is also made to Susan who put down her plough and shear in exchange for sewing classes.¹⁷ Today the banana fields are empty, there is no profit in banana farming. The golden days are over. Who do we blame? The state, the multilateral system that took our privileges away or do we put it all to fate.

GATT, WTO and the Caribbean Region: Progress or Poverty?

If you ask a Caribbean local, what has the WTO really done for the region? Their reply would most likely be -“they’ve taken our banana trade away, they’ve stolen our market, they’ve

¹⁶ Ibid

¹⁷ Karla Slocum, *Free trade and freedom: Neoliberalism, place and nation in the Caribbean* (US: University of Michigan Press, 2006) p. 202

made life even more difficult". Taking the question even more broadly, what has the WTO really done for developing world? Karagiannis argues that the multilateral system rather than developing the third world has robbed it. He contends that in practice, globalization provides a cover for a new form of imperialist exploitation and the institution of US hegemony over a global process of capital accumulation.¹⁸ To support this claim he produces some startling statistics -

1. The poorest 20% of the world's people saw their share in the world income decline from 2.3% to 1.4% in the past three decades, while that of the richest 20% grew from 70% to 85%.¹⁹
2. The loss to the less-developed and developing countries from unequal access to trade, labour and finance is estimated at \$500 billion a year, 10 times what they receive annually in foreign assistance.²⁰ A former Chairman of the World Bank also stated that foreign aid programmes also constitute a distinct benefit to American businesses.²¹
3. The share in world trade of the world's poorest countries, with 20% of the world's people, has declined from 4% to almost 1% during the last four decades.²²
4. These statistics are alarming to say the least and speak volumes about the effectiveness of the GATT regime.

It is conceded that GATT has considerably ordered the world's trading system. It has been successful in tariff reduction - but to whose benefit? The WTO failed Myer's acid test relating to the EC Bananas dispute. Not only were the ACP countries relegated to the sidelines but there concerns were never truly addressed. The WTO never considered the creation of a scheme

¹⁸ Nikolaos Karagiannis "Dependence, Cumulative Causation and the Caribbean" *The Caribbean Economies in the Era of Free Trade* (England: Ashgate Publishing Limited 2004) p. 8

¹⁹ UNDP, Human Development Report, 1996 p8. Quoted in Karagiannis supra note 16.

²⁰ UNDP, Human Development Report, 1997 p87. Quoted in Karagiannis supra note 16.

²¹ Karagiannis supra note 16

²² UNDP, Human Development Report, 1997 p84. Quoted in Karagiannis supra note 16.

that would comply with the EC's GATT obligations but that would also benefit ACP countries. If they had at least attempted to involve and deal with the crisis that it presented to these countries then it could have been argued that the WTO is concerned about the welfare of all its members. The WTO has not served the interests of Caribbean countries in the sphere of Agricultural trade.

The Way Forward: Recognition and Treatment as SVE

So where does the road lead from here? Two approaches are necessary:

1. Multilateral approach - special recognition and treatment of SVEs under the WTO
2. Internal approach - development oriented and production improvement schemes

At the peak of the WTO dispute, Brent Borrell made the argument that the best approach to dealing with the situation of ACP countries is that of giving aid to these countries rather than trade preferences.²³ The argument has certain merits in that it may be less expensive and easier to provide aid to these countries than it is to impose preferential trade regimes. However Borrell's claims are largely unsupportable from a social and economical standpoint. His comments raise vital questions as to what is the correct solution in addressing development issues. Is it trade or aid? I believe that a system predicated on both trade and aid will work best to address the concerns of developing countries in the world trade system particularly small and vulnerable economies.

The starting point is the recognition and special treatment of SVEs under the WTO. To do so it is necessary that a definition of SVE be produced, there should at least be a workable list of criteria that need to be fulfilled in order for a country to be

²³ Brent Borrell, Bananas: Straightening out Bent Ideas of Trade as Aid accessed at http://www.thecie.com.au/content/publications/CIE-bananas_straighten_presentation.pdf on 17/12/08

designated as an SVE. Countries given SVE designation should submit reports every two years concerning the relevant problems that it faces as well as the progress it has made in improving its production capacity. Every five years there should be a review of a country's designation as an SVE, a committee will decide whether or not a particular country should still be considered an SVE.

In cases where the committee has decided to remove a state from the SVE subgroup - the state should be consulted and allowed to present a case in the event that it disagrees with the committee. At the five year review, the committee should also assess the development of various countries, issuing letters of complaint where states have not been doing sufficient to further development within their borders. The basic tenet of such a system is that in return for receiving special treatment and recognition as an SVE such countries also have to comply with certain conditions furthering development. States have to play a part. It is thus a two way approach.

Problems may arise as concerns giving content to the special recognition and treatment to be given to SVEs. However, it is by no means an impossible task. It is indeed necessary if the WTO is to maintain its legitimacy.