THE RAMPHAL INSTITUTE CONFERENCE: BREXIT AND EPAS: EXPLORING THE IMPLICATIONS FOR THE TRADE OF COMMONWEALTH DEVELOPING COUNTRIES

THE IMPLICATIONS OF BREXIT ON EPAS WITH REFERENCE TO TRADE IN SERVICES

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The CARIFORUM EPA is the only comprehensive agreement in place which covers services, investment as well as e-commerce and is therefore used as the benchmark through which to assess the implications of Brexit in this note. This is because currently, the EU does not include services within it GSP regime.

Services are a major offensive area for both the UK and the Caribbean region. However, there are major differences in terms of the sectoral composition, degree of specialisation, market orientation and relative economic importance of the services sector. The UKs major services exports to CARIFORUM region include business, finance, royalties and licencing; the CARIFORUMs towards the UK include travel, tourism as well as communications.

The "Brexit" shock has already led to major implications for services trade in both regions. The dramatic decline in the value of the pound since the results of the UKs referendum were announced may have assisted UK exports of business services to the region (supplied through Modes 1 and 3). However, a major concern now related to the fact that the export of tourism services from CARIFORUM members (Mode 2) have become less competitive. Adverse exchange rate movements have increased costs for UK travellers with the potential to reduce demand.

In view of the overwhelming economic importance of this sector to some CARIFORUM members, the Brexit shock already deserves attention in terms of the design of appropriate flanking and sensitising measures. This may include within the realm of marketing services and the targeting of new source markets. The effects on external reserves needs to be carefully monitored, given existing challenges relating to sustainable debt management.

The CARIFORUM EPA provides a benchmark through which to assess the potential implications pf movement by the UK towards its own autonomous trade regime with the CARIFORUM, or individual members. The major

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potential areas for trade gains are likely to fall within the realm of services and the removal of non-tariff measures. Since the commitments made under the CARIFORUM EPA are more ambitious than GATS, movement towards the WTO scenario is likely to be disadvantageous. Major gains were secured under the EPA relative to GATS commitments including in relation to Mode 4 and the temporary movement of people, including graduate trainees. The protocol on Cultural Cooperation is innovative. Commitments undertaken in the entertainment services sector have facilitated the emergence of the animation industry.

The UK could seek to maintain the status quo or alternatively pursue a more liberal stance compared to the EPA. The CARIFORUM-EPA provides a useful benchmark in order to assess those areas where the UK could go further in terms of its liberalisation, as well as where additional concessions might be made towards the UK relative to the EU (though bearing in mind the application of the MFN clause).[2] In this regard, the relative importance of the UK and EU markets needs to be assessed and the areas in which the EPA has already resulted in gains and the potential scope for these to increase, evaluated.

A more detailed evaluation of the trade-related effects of EPA implementation with a particular focus on trade in services is urgently required. This analysis must build on previous efforts undertaken thus far (e.g. Singh et al., 2014; Greene, 2015). Such an exercise will invariably confront major data limitations as well as capacity constraints in both obtaining as well as compiling the necessary data.

An added complication arises in view of the fact that, as described by Low (2016, forthcoming), only relatively recently has it become feasible to measure trade in the same way as GDP, moving away from the uncomfortable juxtaposition of value-added estimates of GDP and gross numbers for trade; while all WTO signatories have schedules of market access and national treatment (non-discriminatory treatment between domestic and foreign services and service providers) commitments, many of these schedules fail to capture the actual level of access granted to services of foreign provenance.[3] This will be of obvious concern for negotiators on both sides.

Finally, assuming article 50 is triggered, the future sequencing of the likely hierarchy of new trade regimes negotiated by the UK has to be borne in mind. In the design of its own GSP regime, the UK could opt to include services. It could also address the differentiation issue more effectively and broaden an EBA-type regime, inclusive of services, to SVEs and SIDS in addition to the LDCs.

REFERENCES

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[2] Controversy has arisen over Article 70 (1) b, which allows established EC firms and investors to benefit unconditionally via the EPA's MFN provision from any more favourable treatment which the CARIFORUM states may provide to any industrialised country or major trading economy with which they conclude a subsequent EIA (e.g. the United States, Canada, BRICs and now, potentially the UK). As further discussed by Sauve and Ward (2015) paragraph 5 of Article 70 states that when a CARIFORUM state becomes a Party to such an EIA, the EC and the CARIFORUM states shall enter into consultations to decide whether the CARIFORUM state may deny the more favourable treatment to the EC Party.

[3] The GATS skirts the challenge of providing a definition of services by defining them in terms of modes of delivery (Low, 2016).

Singh et al., (2014) Monitoring the Implementation and Results of the CARIFORUM-EU EPA Agreement (http://trade.ec.europa.eu/doclib/docs/2014/october/tradoc_152824.pdf).