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# Banana Trade Preference Erosion and Economic Growth: A Case of the Windward Island

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## Background

- Countries in the Windward Islands – St. Lucia, St. Vincent and Dominica – have enjoyed preferential treatment on the UK banana export market and subsequently the EU single banana market since the 1950's at the expense of Latin American banana exporters.
- This opened up opportunities for these Island nations to compete on the EU banana market dominated by Ecuador, Costa Rica, and Panama. Trade preference has contributed to the diversification of the once sugar-export-dependent economies of the Windward Islands to a much more robust and expanded economies.
- However, the trade discrimination or preferential treatments by the EU have resulted to both internal and external disputes. The Latin American countries, backed by the United States have on several occasions challenged the legitimacy of such policy at the WTO since both regions (Latin America and Windward Islands) are regarded as developing regions.
- This development resulted to numerous modifications to the terms of the EU banana policy, reducing the prospects of the Windward Island being able to compete with the Latin American countries.
- The banana market is noted as 'the one market in which benefits from trade preferences and potential losses from preference erosion are greatest' (Anania, 2010)

## Research Questions

The paper explores how policy changes in the EU banana trade affected economic growth and banana exports from the Windward Islands.

The study attempt to address the following secondary objectives:

- Take a succinct look into EU banana trade policies from 1993 to date.
- Outline the impact of these policies on livelihood, employment and the macro economy of nations in the Windward Islands.
- Estimates the impact of EU banana preference erosion on the economic growth of the Windward Island nations.

## Methodology

- Following Alexandraki and Lankes (2004), the lower bound of the true price gap (preference margin) is given as the proportion by which the average unit price received on the UK market by a preference recipient exceeds that received by an MFN exporter on the US market:

$$m = \left( \frac{P_i}{P_w} \right) - 1$$

where  $P_j$  and  $P_w$  are the price received by country  $i$  and the world price, respectively.

- The impact of preference erosion is estimated using a seemingly unrelated regression model given as:

$$EQ_i = f(\text{preference margin}_i, \text{UK banana price}, \text{UK banana imports})$$

where  $EQ_i$  is the export quantity of bananas from country  $i$  to the UK market

## Estimation Results

	Variables	Coef.	Std. Err.
<b>Dominica</b>	Preference Margin	.147352	.384427
	UK Imports	-1.25770***	.210445
	UK Price	1.66138***	.374387
	_cons	16.2622***	3.36965
<b>St Lucia</b>	Preference Margin	.483877**	.234738
	UK Imports	-.785035***	.195550
	UK Price	1.144512***	.351033
	_cons	14.11365***	3.12382
<b>St Vincent</b>	Preference Margin	.3779754**	.180789
	UK Imports	-.342350**	.158224
	UK Price	.815773***	.257796
	_cons	9.87048***	2.33000

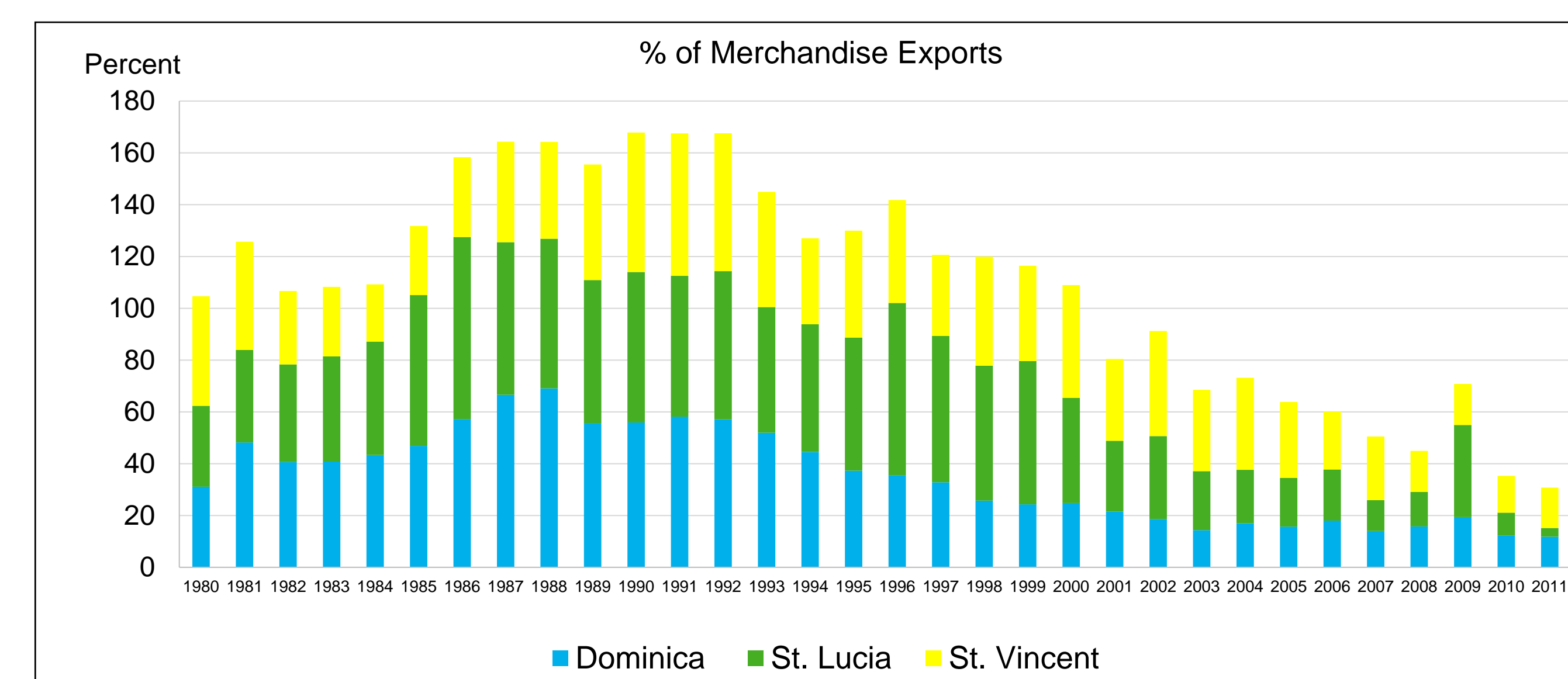
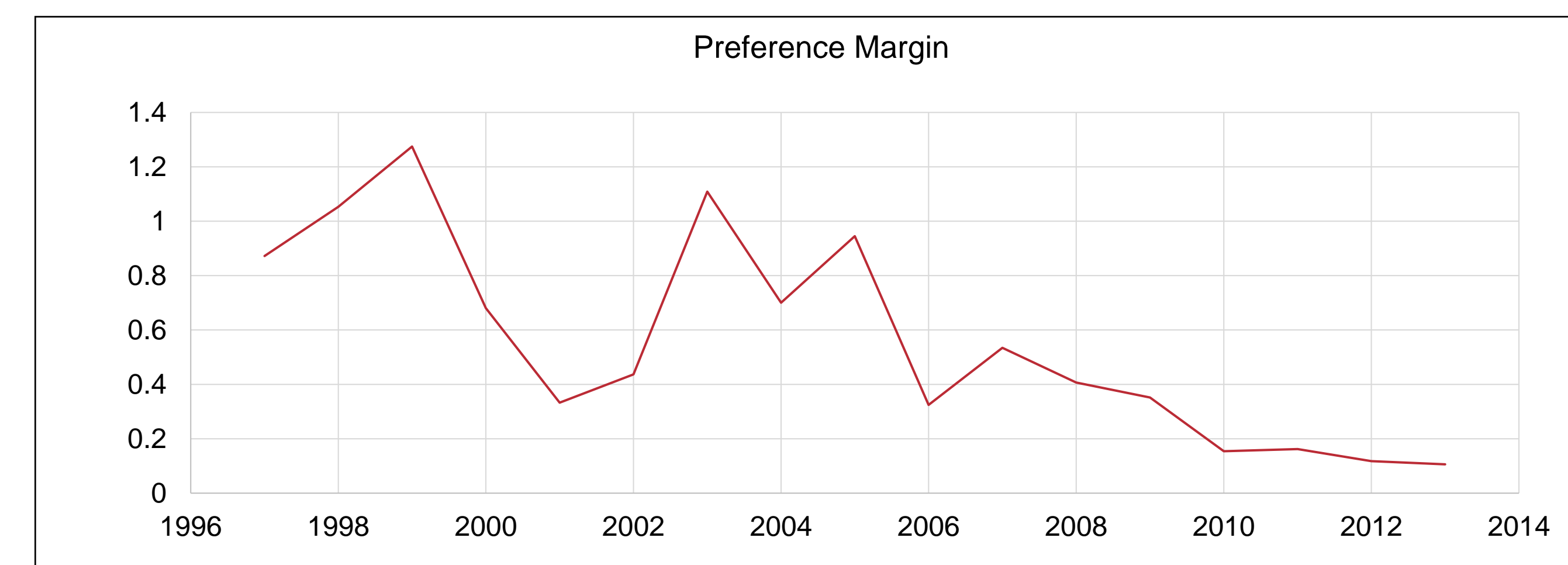
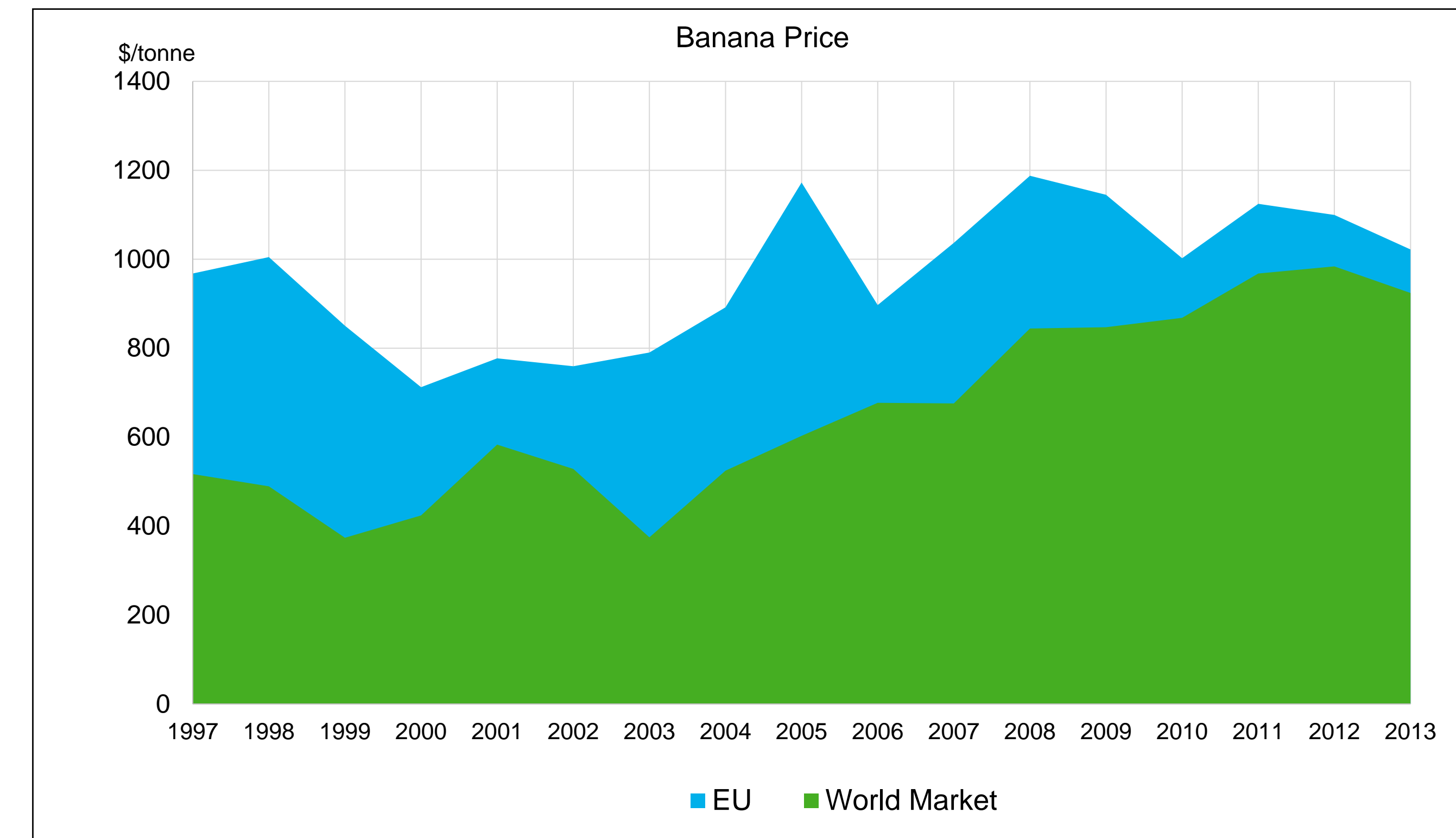
### References:

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## Key Results and Implications



- A decline in the margin between preferential price and price in the world market is experienced over the study period.
- As a result, contribution of banana exports to total merchandized keeps falling for all three countries in the Windward Island.
- With the exception of Dominica, changes in EU banana export policies had positive and significant effect on export quantities.
- The most impact of gradual decline in preferential treatment is experienced in St Lucia.
- Average UK banana prices positively impact export quantities from the Windward Islands.