

# Ecuador's accession to the Multiparty Andean-EU Trade Agreement: Between pragmatism and ideology

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## Abstract

This paper analyses the trajectory of Ecuador's unique negotiation process within the framework established by the Andean Community (CAN), as to finally join the Multiparty Agreement between the European Union (EU), Colombia and Peru. It considers the circumstances that forced the country to reassess its negotiation process. It also examines the EU's particular interest for integrating Ecuador in the agreement. It concludes arguing the country's decision was the result of a change of paradigm with respect to the opening of international markets that occurred during a period of political change.



# 1. Ecuador's singular path towards the EU- Andean Multiparty Agreement

## 1.1. Historical background of the negotiations

The relationship between Latin America and the Caribbean (LAC) and the EU has historically been based on close cooperation and solidarity, in which *bi-regional* types of summits have taken place at least since 1990<sup>2</sup>. This has paved the way for deeper commitments in areas of common interest, but at the same time it has hindered the conclusion of (bi-regional) agreements beyond cooperation. For instance, a EU- CAN Cooperation Framework Agreement<sup>3</sup> was signed between them in 1993. It set the foundations that governed the relationship between both parties, including negotiations for deeper cooperation, trade and political dialogue.

Since then, the relationship that concerned the EU and CAN gained in institutional framework and the dialogue would hitherto be sustained in high-level meetings. In 2002, during the Second Summit of heads of state and governments of LAC and the EU, agreed to negotiate a Political Dialogue and Cooperation Agreement, as a building bloc to the negotiations for an Association Agreement (*Acuerdo de Asociación*) between the two parties.

In 2004, the Political Dialogue and Cooperation Agreement between CAN and the EU entered into force<sup>4</sup>. This agreement extended the scope of cooperation to include new areas such as human rights, conflict prevention, migration and the fight against drugs and terrorism. Special emphasis was placed on cooperation to strengthen the regional integration process in the Andean Community, which was the cornerstone of the negotiations towards a more comprehensive agreement.

Accordingly, in 2005 in Luxembourg, the CAN - EU Ministerial meeting was held, which served to reiterate the willingness towards the conclusion of an Association Agreement between the two regions, having one common strategic objective: establishing a free trade area (FTA).

This strategic objective was important in terms of trade, because the EU is a niche market for Latin American exports as they have very attractive prices compared to other regions in the world. Additionally, the EU is the second most important partner of Andean region, as the quality of its main products, like bananas and coffee, are popular for the European consumer.

Ultimately, through CAN's *Decision 667* both regions agreed on the negotiation terms of the Association Agreement, pointing out the different levels of economic

development between the re-gional blocs. Consequently, in 2007 the first round of negotiations took place in Bogota, Colombia; followed by a second round (Brussels, December 2007) where the parties agreed on advancing as rapidly as possible on trade-related issues. During the third round, celebrated in Quito, in 2008, the parties stressed that asymmetries and differences are not only expressed between the two blocs, but also within the Andean Community.

Trade policy dissensions within CAN members, differences of their structural economic features and the dependence and vulnerability to external markets, were factors that prevented the Andean countries to continue to negotiate as a regional bloc.

By the fourth round of negotiations in 2008, the Andean countries fell into a deadlock. On one side, Peru and Colombia persuaded the EU to continue the negotiations bilaterally. Bolivia decided to abandon the process and Ecuador withdrew in July 2009, arguing about the banana dispute against the EU. The conundrum was solved in December 2009, when Peru and Colombia end up in an agreement with Europe (Fritz, 2010: 4).

This breakdown in the negotiations was possible due to a legal provision<sup>5</sup> of the *Andean Community Commission "Commercial relations with third countries"* which allows member countries to negotiate trade agreements with third parties, primarily on a community basis and exceptionally on an individual basis. In other words, member countries can pursue negotiations bilaterally<sup>6</sup>.

## **1.2. Ecuador's participation: a deadlock in the negotiations?**

Ecuador's engagement in the negotiations was singular. To understand why its participation was hampered, the political and economic situation the country was facing at that time, as well as the country's historical commercial attachment to the EU must be considered.

In 2007, under the recently inaugurated new administration, and precisely in the midst of the EU-CAN negotiations, Ecuador undertook an extensive political reform through a Constitutional Assembly, which in 2008 created a new Constitution that was approved by Referendum. The new legal framework regulating Ecuador's international relations as well as its trade policy,<sup>7</sup> obliged the country to reorient its commercial relationship based on new principles. Accordingly, this Constitution proposed a development strategy based on a different logic rather than a mercantilist one.

In this context, a FTA, such as the one being negotiated by Colombia and Peru,

was incompatible with Ecuador's new priorities. The country envisaged having an agreement based not on market competition but on productive complementarities, safeguarding domestic production and leaving the necessary policy space to incentive certain prioritized economic sectors.

In accordance to the new Constitution, Ecuador initiated a new *international insertion strategy*, which priority was establishing partnerships with Latin American countries. For instance, Ecuador joined the Bolivarian Alliance for the People of Our America (ALBA) together with Venezuela, Cuba, Nicaragua and Bolivia<sup>8</sup>. The ALBA foresaw their own trade agreement (Trade Agreement for Our People- ALBA-TCP) based on productive complementarities rather than on comparative advantages. This was an additional factor that drew Ecuador away from the negotiations with the EU.

### **1.3. The Generalized System of Preferences (GSP): historical and commercial attachment to the EU**

Another important aspect in the history of the EU-CAN economic relationship, was the fact that Ecuador — like the rest of Andean countries, had been benefitting from a special treatment. For instance, in 1991 the European Community implemented this regime that favored trade with the Andean countries while contributing to the fight against drug production and trafficking, this is the Drug-Generalized System of Preferences (GSP Drug). For instance, during the first years of implementation, this regime had favorable effects on some Andean exports to the European market, as well the creation of employment other than illegal activities.

An upgrade of the first version of this regime, was the GSP plus, in force since 2006 and expiring in 2016. Ecuador's interest in maintaining this regime is due to the fact that the majority of its traditional exports, like flowers, tuna and shrimp, benefited from preferential tariffs as part of the GSP.

Given the difficulties and the potential losses Ecuador would face by not signing the agreement with the EU, the GSP plus was exceptionally extended. This was also as a way to push Ecuador towards the accession to Colombia and Peru's Trade Agreement. However, the relative stability in exporting its main products to the EU, made Ecuador reluctant to reconsidering the negotiations.

Both circumstances denoted how Ecuador has been facing a difficult position in its willingness to restart negotiations to access the agreement. At that moment, the fact that Colombia and Peru were getting closer to concluding negotiations and a possible entry into force of the Multiparty Trade Agreement, signified a risk of trade diversion away from Ecuador.

This possibly obligated the country to reorient its commercial priorities. From an economic stand-point, it had little choice but to entertain negotiations that would allow the country to secure its ex-ports to the EU where it would not suffer serious economic problems in the short term.

Consequently, Ecuador accessed the Agreement in 2016<sup>9</sup>. Ecuador's interest to conclude the agreement is therefore explained.

## 2. Multiparty Agreement: economic or power relations?

### 2.1. The different theoretical approaches to explain the EU- CAN relationship

One relevant concept in the field of *International Relations* that illustrates the performance of the EU as a global actor is hegemony. Citing Bhagwati, the existence of a *hegemon-centered* trade agreement has different motivations for developed than for developing countries. For instance, de-veloped partners respond to certain interests, such as counterbalancing Regional Trade Agreements (RTAs) with other hegemon, specifically the ones the US has pursued, as a bilateral strategy. Similarly, the motivation of a hegemon, argues Bhagwati, is covering other areas rather than trade, forcing developing countries to make changes in their legislations prior to subscribing an agree-ment (2008:43).

Therefore, the scope of the Multiparty Agreement— including areas like Intellectual Property Rights (IPR) and procurement market— was a way to push towards the harmonization of the An-dean countries' legislations and thus, deriving in a strategic attempt of the EU to remain the hegemon in the area.

The International Political Economy approach is also useful to understand the power perspective of the European region. As Söderbaum et al. stated (2005), the EU has aimed to spread its own model of development, which has included the promotion of RTAs with developing countries to make them participate in the global economy. Along the same lines, this strategy has allowed the EU to reaffirm itself as an influential actor through the use of a soft type of power (Nye, 2002).

Yet, there is controversy as to whether there is a genuine common EU foreign policy towards Latin America. As economic interests predominate in the field of international relations, some regional blocs' foreign policy is articulated through a sound trade policy. Accordingly, many scholars agree that the EU uses trade as a way to conduct a structural foreign policy (Brown and Torres, 2012).

Finally, as for the Latin American thought, there is an important gap in the North-South relationship, such as the EU's-LAC (Latin America and the Caribbean). The latter's interest remains on the economic dimension of International Relations, to the extent that economic development is ultimately their fundamental concern, whereas developed countries international agendas' have been marked by other issues, such as security (Bernal-Meza, 2000: 44). This could be one of the reasons that explains the mismatch in their foreign policy agendas'.

## 2.2. European power-through trade strategy

In spite of all these different approaches, I sustain that the EU exerts power due to its market attractiveness in terms of population and purchasing power, which makes it an exceptional economic partner. As explained by Meunier and Nicolaidis (2006), the EU's influence on domestic policy-making is due to its valuable market capacity, having named this phenomena *power through trade strategy* (2006:907).

Accordingly, the Multiparty Agreement provides evidence to sustain the *power through trade strategy* argument. Inasmuch as it confers market access to the Ecuadorian exports, the EU expands its capacity to demand for changes at the domestic level of its trading partners (Meunier and Nicolaidis, 2006). This also alludes to the different levels of analysis, actors and regimes, that can be used to assess the Agreement.

For instance, from a multilateral standpoint, the spread of the European *power through trade strategy*, is a way to reinforce the legitimacy of the international system of trade. This means the EU insists on a normative performance by proclaiming the rules and principles of the World Trade Organization (WTO), mainly what concerns with trade predictability and stability, market access, as well as the WTO plus issues: competition policy, environmental standards, labour rights and investment rules.

On the bilateral basis, the EU strategy towards Latin America and particularly towards the Andean region, even if it has been flexible in negotiating separately with members of the bloc, it has undermined the community provisions. As to face this situation, CAN's new decisions have been agreed to safeguard the community regulatory frame. For instance, Decision 598 allows CAN members to pursue negotiations bilaterally<sup>10</sup>, which in fact has divided the bloc.<sup>11</sup>

Along the same lines, the EU's strategy of promoting Association Agreements, has a clear hub and spoke effect, falling back into the discussion of the political economy of its foreign policy. As stated by Ikenberry (2004), the hub and spoke order is a complex system of political and economic interdependencies. This

means that the EU's inter-regional agenda encounters a set of economic goals – as through FTAs, to reach its project of global integration; but at the same time, considering political dialogue and cooperation schemes – for instance, through the inter-regional summits.

This type of Agreement illustrates a virtuous cycle: the LAC region exports mainly primary goods to the European market, while the EU recognizes the region as a political partner and cooperation beneficiary. Accordingly, Latin America increases predictability and transparency coping with the multilateral system of trade and the rest of inter-regional forums, which at the same time demonstrates the multilevel type of governance the EU pursues.

### **2.3. Ecuador's accession to the Agreement: balancing the EU's trade-off**

The *power through trade strategy* argument puts in evidence the EU's motivations to expand the Multiparty Agreement. For instance, harmonizing their partner's legal frameworks, would simplify their commercial and investment relations. Thus, this argument explains whether the EU had a particular interest towards the conclusion of the Agreement with Ecuador.

For the EU, reconsidering negotiations with a small partner like Ecuador, encountered a small effort and it could strengthen its presence in the South American region. As different assessments about the EU's ties with the Latin American region suggest, the EU's ambition to expand its own model of regional integration as a way to exert a geopolitical force, was to assure its preferential markets in order to serve its main economic interest groups, mainly the agricultural sector and the industrial machinery importing consortiums.

The hegemon-centered approach is suitable to explain the EU's trade-off as to expand the Multiparty Agreement. Accordingly, Europe has concluded an agreement with Central America and continues negotiations with MERCOSUR. These two aspects would have an impact in a new regional balance of power, precisely during an era of rift with the region's main trade partner, the United States. As a matter of fact, the EU guaranteeing its presence in a historically attached region like Latin America would also counterbalance the already settled Asian forces.

As Young and Peterson suggest, "the new trade politics of the EU signified undertaking a *deep* trade agenda" (2006:796). This could potentially explain the European interest in including Ecuador in the same agreement whose scope has already been set broad (IPR, government procurement). The new trade politics was also a way to confront developing countries who were reluctant to enforce some



of the multilateral trade provisions. On the other hand, the enlargement of the trade agenda could encourage them to engage in further multilateral trade negotiations.

### 3. Reorienting Ecuador's trade policy: between pragmatism and ideology

I conclude with two explanatory aspects of the Ecuadorian trade policy reorientation.

#### **Ideology:**

Rejecting the subscription to the Multiparty Agreement was a way to underpin the Constitutional provisions that demanded to protect vulnerable productive sectors. It was also a backlash against neoliberalism and deregulation policies which have undermined the country and the region for the past three decades. Therefore, in the first place, prioritizing an ideological stand would have increased credibility of particular economic sectors, demanding some sort of protection to develop their industries. Similarly, it would have been a sign of normative conduct and a way to enact the country's legal corps.

However, for a small country like Ecuador, the capacity to remain ideologically rigid was reduced, mainly due to its limited ability to negotiate and demonstrate autonomy in regards to its trade preferences. Accordingly, this could have posited further economic downsides by eroding the already fragile economic situation. In fact, it could have inhibited the European market access already assured by the GSP.

Similarly, taking the ideological path, could have undermined the domestic governance capability, as the public opinion and the main players in the economic and productive sectors mobilized towards the conclusion of the agreement. In that regard, an unaccomplished process could have resulted in a socio-political chaos.

## Pragmatism:

Ecuador's accession to the Multiparty Agreement could be defined as a pragmatic choice by the governmental authorities facing an imminent adverse scenario: namely, the downfall of oil prices, the presidential elections in 2013, the expiration of the GSP plus, as well as the significant lobby-ing of the agricultural sector and the competent capacities of some high government officers who advocated for the Agreement.

Likewise, the government encountering some disputes in regards to the agreement's scope, resulted in a cleavage. The "pragmatist" and the "ideologist" were disputing the advancement and conclusion of the negotiations. On one side, such an agreement with the EU could have condemned the new paradigm of the 2008 Constitution and the *Good Living National Plan*, both of which envisaged the idea of good living<sup>12</sup> and administered trade, at some extent differing with legal provisions of the multilateral system of trade. On the contrary, the pragmatist side entertained negotiations for an imminent subscription to the Multiparty Agreement that would release the country from a trade diversion risk, as its main Andean partners, Colombia and Peru, already benefited from preferential tariffs and market access for their main export products.

Recalling Bhagwati, the motivations of the hegemon-centered trade agreement for a developing country, as Ecuador, could respond to a realist stance that obligates a country to take part in the international order. It also increases the credibility of reforms taking place domestically locking them thanks to the Agreement and avoiding trade-diversion by countervailing others RTA's forces (2008:45).

I therefore conclude that Ecuador's stance was mostly motivated by a hegemon-centered agreement as a way to secure its position in the international concert. On the economic side, the losses of not subscribing it would have been significant (around US 1.9 billion per year) to its main- traditional export sectors. However, the decision threatened the so-called transformation of the productive matrix, to a longer and less likely period for its achievement.

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## Notes

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<sup>2</sup>Through the Rome Declaration of 20 December 1990, the EU-Rio Group Dialogue was institutionalized. Since then, bi-regional summits have been taking place in a biennial basis, even if the Latin America and the Caribbean region has faced various changes in its institutionally. However, the Ibero-American Summits have also been held since 1991. Nevertheless, in 2010, the Community of Latin American and Caribbean Nations (CELAC) took the leadership of the bi-regional interactions and replaced the Rio Group Summits (Portales, 2016).

<sup>3</sup>Decision 329, 1993 (CAN).

<sup>4</sup>Decision 595, 2004 (CAN).

<sup>5</sup>Decision 598, 2004 (CAN).

<sup>6</sup>Articles 1 and 2 of Decision 598, (CAN).

<sup>7</sup>Articles 416, 304, Constitution of Ecuador, 2008.

<sup>8</sup>Other countries joined the group afterwards: Saint-Lucia, Saint Vincent and the Grenadines, Dominica, Antigua and Barbuda.

<sup>9</sup>The Agreement entered into force in January 2017.

<sup>10</sup>Articles 1 and 2 of Decision 598, (CAN).

<sup>11</sup>Colombia and Peru subscribed separately FTAs with the US in 2012.

<sup>12</sup>This is not a new development paradigm, but a social, liberating alternative, which proposes other priorities for social organization, unlike the mere economic growth implicit in the traditional development paradigm. Economic growth is desirable in a society, but its distributive and redistributive patterns matter, too. (Good living Development Plan, 2013-2017: 16).