
CARICOM'S ORIENTATION IN EXTERNAL TRADE NEGOTIATIONS AND RESILIENCE BUILDING

Claudius Preville

Abstract. This chapter provides a description of CARICOM's orientation in the various external trade negotiations. In so doing the chapter argues that there may be a need to revisit CARICOM's stances in external trade negotiations, and proposes a more offensive approach focusing on improving access to export of services rather than the defensive one calling for the retention of goods trade barriers. In the region there remains excessive fear that liberalisation will result in undermining the fundamentals of especially the smaller economies and weaken their fiscal systems. However, while there may be a basis for such fear, not sufficient attention is being given to the opportunities that may be realised from liberalisation. The chapter also discusses the connection between trade policy and economic resilience and argues that unless the specialisation agenda is taken seriously, the prospects for building economic resilience will remain weak. The building of economic resilience in small economies like those of CARICOM can be enhanced if trade policy is conducive to market flexibility and sound macroeconomic policies, permitting enterprises to specialise in those areas where they compete effectively.

1. Introduction

The Caribbean Community and Common Market (CARICOM) is a regionally integrating and trading bloc created by fifteen countries of the Caribbean. The bloc has the goal of becoming a common market and has so far grown beyond a customs union. It was originally notified to the predecessor of the World Trade Organisation (WTO), the General Agreement on Trade and Tariffs (GATT) on October 14, 1974 under Article XXIV. Its acceptance under Article XXIV of the GATT is historic and made it the first group of developing countries to be so recognised. CARICOM has also notified the WTO of the Revised Treaty of Chaguaramas, which covers provisions for Trade in Services and which has been approved under Article V of the General Agreement on Trade in Services (GATS), on February 19, 2003.

CARICOM's gross domestic product (GDP) has tended to increase in recent years. Inflation has been under control – less than five percent – in most CARICOM members since 2002, with the exception of Jamaica and Haiti where it exceeded ten percent (CARICOM, 2005; 2007).

Trade has had an important role in economic growth though exact causal relationships have not been identified. Trinidad and Tobago, the fastest growing member of CARICOM has had persistent trade surpluses with its major trading partners since the mid-1990s, while the countries where growth has been sluggish tend to be characterised by large trade deficits with their principal trading partners.

Drivers of economic growth vary within CARICOM. However, for many of the region's economies, services are extremely important, followed by agriculture and light manufacturing. In the case of Trinidad and Tobago, the oil and gas sectors are extremely important (CARICOM, 2002).

This chapter provides a very brief description of CARICOM's orientation in the various external trade negotiations. In so doing the chapter argues that there may be a need to revisit CARICOM's stances in external trade negotiations, and proposes a more offensive approach focusing on improving access to export of services rather than the defensive one calling for the retention of trade barriers on goods.

The remainder of this chapter is organised as follows. Section 2 describes CARICOM's trade negotiations, while Section 3 discussed CARICOM'S trade policy orientations. Section 4 proposes a new approach in CARICOM'S orientations regarding international trade, suggesting, amongst other things, that it should be less defensive than it is presently, and that it should be directed at promoting exports of services. Section 5 concludes the chapter.

2. Overview of CARICOM Trade Negotiations

CARICOM comprises fifteen countries of the Caribbean region: Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St Kitts and Nevis, Saint Lucia, St Vincent and the Grenadines, Suriname, Trinidad and Tobago.

The integration process began formally in 1973 with the signing of the Treaty of Chaguaramas. Prior to this, several CARICOM members had attempted political unification with the creation of the Federation of the West Indies in 1958. However, that process was perhaps premature and failed after approximately four years, in 1962.

Other attempts to keep the integration thrust alive since 1962 included the creation of a Caribbean Free Trade Association (CARIFTA) on May 1, 1968. It was the CARIFTA that was subsequently transformed into a Common Market as an integral part of the Caribbean Community in 1973.

Recent Developments

CARICOM has progressed on several fronts with regard to the external trade negotiations. The WTO remains the major external trade negotiating body for all members of CARICOM as they continue to actively participate in the Doha Round. In addition to the WTO, CARICOM (along with the Dominican Republic) completed the negotiation of an Economic Partnership Agreement (EPA) with the European Union (EU), on December 16, 2007. The region has also negotiated Free Trade Agreements (FTAs) with several countries in the Western Hemisphere including Costa Rica, Dominican Republic, Colombia and Venezuela.

It is useful to note, however, that of these agreements only the CARICOM-Costa Rica FTA substantially satisfies GATT Article XXIV requirements of liberalisation of substantially all trade. The other agreements have been notified under the Enabling Clause. A Cooperation Agreement has also been negotiated with Cuba. This agreement is not specific to trade but covers a diverse range of development interests for both sides. For instance Article 10 of this agreement covers economic cooperation and spans the areas of development of human resources; science and technology; disaster preparedness and culture; while Article 11 covers double taxation agreements.

FTAs have also been contemplated with the United States, Canada and MERCOSUR, following the protracted delay in completion of negotiations for a Free Trade Area of the Americas (FTAA). However, there has not been significant progress to date in any of these negotiations. With regard to the United States and Canada, the present emphasis is on the renewal of earlier non-reciprocal agreements: the CARICOM-Canada (CARIBCAN) Agreement and the Caribbean Basin Initiative (CBI) Agreements with the United States. Yet, the non-reciprocal nature of these agreements require that WTO members must agree to their implementation in order that the most favoured nation (MFN) principle is not violated.

While the CARIBCAN has met little opposition for the renewal of the WTO, the CBI Agreements have proven problematic with Paraguay opposing the renewal of the Waiver request by the United States. Finally,

the talks with MERCOSUR have not progressed beyond an initial exchange of information between the parties.

3. Orientations in External Trade Policy

CARICOM's orientation in external trade policy has, by and large, been defensive. Countries for the greater part have sought to either limit the extent to which their markets are further opened by requesting lists of exclusions from the liberalisation process, or modulate the pace of liberalisation by requesting long transitional periods for implementation. Central to CARICOM's orientation has also been requests for development assistance, including financial and technical assistance for structural transformation and adjustment of their economies.

In addition, there has been a strong conservative dimension in these negotiations—securing continued non-reciprocal market access in agreements where such access already exists. These include the ACP-EC Cotonou Agreement, the Caribbean Basin Initiative (CBI) Agreements and the CARICOM-Canada Agreement (CARIBCAN). Very little accent has been placed on possible offensive interests especially in the area of goods. But increasingly, some demands are being made in the services area of negotiations. This is best exemplified by the Services chapter in the EPA concluded between CARIFORUM and the EU on December 16, 2007. The region sought and secured market access for services suppliers in twenty-nine sectors for Caribbean Contractual Service Suppliers. This includes the entertainment sector for all EU member states except Belgium and Italy (CARIFORUM, 2007).

WTO

In the WTO, CARICOM has been engaging negotiations primarily in the context of the Small Vulnerable Economies (SVEs) work programme. The major elements of the SVEs approach to negotiations may be summarised as follows:

- Successful completion of the Doha Development Agenda (DDA) that should include redressing the disadvantages incurred by many SVEs from the Uruguay Round;
- While SVEs see market access as critical to a successful outcome of the DDA, this should not be pursued to the detriment of the development interests of developing countries;
- SVEs are willing to make a contribution to the DDA. However, there is growing concern among SVEs that they will not get much in return;
- SVEs expect to be allowed to contribute at an appropriate level in the DDA, i.e., more than the LDCs but less than other developing

- countries, especially the large ones;
- Sufficient policy space and flexibility to pursue policy objectives and more equitable participation in the multilateral trading system.

However, the likelihood of securing the region's demands from the multilateral trading system is slim. CARICOM will likely have to review its ambition level, including reduction of its expectations in key areas including both agriculture and non-agriculture market access if the US is to make deeper concessions on subsidies and the EU on market access.

Negotiations with the EU

In the Economic Partnership Agreement (EPA) recently negotiated between the region and the EU, the region was pursuing a similar stance as in the WTO. As already stated, the overall approach to negotiations had been defensive and many countries were seeking a combination of a large number of tariff lines for exclusion from the liberalisation process as well as a lengthy transitional period for implementation of commitments.

The EU was largely not in agreement with this approach and has been seeking to minimise the exclusions list so that the EPA can pass the "substantially all the trade" test envisaged under GATT Article XXIV. While there is no accepted definition of "substantially all the trade", in practice countries completing FTAs use a working interpretation of ninety percent or more of the combined value of trade between the blocs.

Ultimately, the EPA completed with the EU is very ambitious. It envisions liberalising 92 percent of bilateral trade upon completion of the transition period of twenty five years. The EU has committed to full liberalisation, while CARIFORUM will liberalise 86.9 percent of which up to 82.7 percent of liberalisation would have taken place by year 15.

The region also sought significant development assistance, including financial and technical assistance as conditions for concluding the EPA. Some 165 million euro will be made available under the tenth EDF Caribbean Regional Indicative Programme, while additional funding is foreseen in successive programmes for the period 2014-2020. These resources are expected to be complemented by Aid for Trade.

Negotiations with the US

The region has made overtures to the United States for an FTA type of agreement, but on softer terms like those envisaged in the EPA. However, the US has not expressed a keen interest in this and prefers to explore the renewal of the CBI Agreement in the WTO.

Negotiations with Canada

Canada has made a request for the renewal of a waiver for the CARIBCAN agreement in the WTO. This request has not met any significant opposition to date and will likely be granted. CARICOM and Canada are currently actively holding preparatory talks for an FTA.

Negotiations with MERCOSUR

The two blocs have exchanged preliminary information in 2005. However, there has been no further movement since. Moreover, negotiations with MERCOSUR were not expected to proceed until EPA negotiations were completed given the limited negotiating capital of the CARICOM side.

Other Bilateral Negotiations

The major bilateral that CARICOM has recently concluded with Europe and the possibility for new WTO compatible trading arrangements with the United States and Canada is consistent with the development orientation of small open economies. FTAs with these major trading partners would likely create the possibility for lower price, high quality imports for consumers, while simultaneously creating the possibility for new export avenues for CARICOM.

Yet, the region may still wish to consider other possibilities for bilaterals, including with the emerging powers in Asia, like India and China. These countries are increasingly becoming the principal sources of diverse manufactures consumed in Europe and the United States. Hence CARICOM may wish to consider the option of completing FTAs with these countries, thereby maximising consumer welfare from imports that would originate directly from there.

4. A New Approach in Trade Negotiations

CARICOM member states, with the exception of Trinidad and Tobago, experienced GDP growth mostly through the services sectors, notably travel, reflecting the region's increasing reliance on tourism. In the case of Trinidad and Tobago, growth occurred primarily through the manufacturing sector dominated by niche products that command strong demand in world markets – natural gas, petroleum and chemicals.

CARICOM needs to consider the non-traditional services, such as business services, that have performed very well in some member states. Distribution services should be reduced over time as it signals primarily

CARICOM'S Orientation in External Trade Negotiations

a worsening goods deficit. Moreover, available statistics would seem to indicate that countries with a relatively large distribution sector seem to be growing slower than those where that sector is comparatively small.

Enhanced Market Access for Services

Given that the main drivers of economic growth of the majority of CARICOM members have been the services sectors, CARICOM should seek enhanced market access for its services exports in external trade negotiations. This currently constitutes the major negotiating plank of CARICOM members in the WTO as well as the EPA, the major bilateral arrangement which CARICOM recently concluded with Europe. Yet, more importantly CARICOM needs to negotiate trade agreements that provide enhanced market presence. Among the factors to be taken into account for enhancing market presence are technical and financial assistance for building supply-side capacity, as well as overcoming barriers to establishment in destination markets.

Welfare Impact of Trade Liberalisation

CARICOM's defensive orientation with regards to goods trade is questionable. With the exception of Trinidad and Tobago, most of the goods imports of CARICOM members are directed at final consumption. Intermediate products constitute a relatively small percentage of goods imports. This means that the major role of imports for final consumption is distribution and as such, growth of the distributive trades will be accelerated by growth of imports.

Available evidence suggests that members of CARICOM with significant orientation towards liberalisation have grown faster and more consistently than those that are not (CARICOM, 2005).

Given the composition of the goods imported, typically manufactures, it is expected that significant welfare gains can be realised through tariff reduction as price elasticity of demand is expected to be large. Such welfare gains are associated with the "gains from trade" theory associated with the law of comparative advantage.

Fiscal Impact

A major concern for many CARICOM members continues to be the fiscal revenue impact of trade liberalisation. Will liberalisation result in steep reductions of fiscal revenues? The answer to this question cannot be known a priori for all CARICOM members. However, assuming the goods being imported are relatively demand price elastic, CARICOM

members can concede some of the tariffs on most of these products while stimulating import volumes. As such, while the per unit revenue collected may decline, there can well be overall revenue gains from the larger volumes of imports, provided a positive tariff remains for a select set of sensitive products. A cautious approach would however be advisable, especially in relation to products that are major revenue earners and certainly some of these products should be excluded from liberalisation altogether.

Ultimately fiscal reform seems inevitable for the CARICOM states and perhaps these states should take advantage of the opportunity to pursue fiscal reform as part of new trade agreements with other blocs.

Protecting Domestic Production

Perhaps a lesser concern for some CARICOM members is their domestic production interests. In the area of agriculture, all countries of the world have some concerns with respect to their rural livelihoods and food security. In fact, several developed countries are very protectionist where agriculture negotiations are concerned. CARICOM members are no exception and should continue to insist on some minimum rural livelihood and food security concerns in all trade negotiations.

But in the area of industrial products a significant liberalisation effort should be contemplated, especially in products in which CARICOM simply does not possess comparative advantage and does not anticipate developing comparative advantage in the foreseeable future.

Trade Policy and Resilience Building

There is a clear connection between trade policy and economic resilience building, and this is especially so for small states, which tend to be very open to trade due to their small domestic markets and lack of natural resources.

First and foremost economic resilience building requires sound macroeconomic policies and flexible markets, in order to enable the countries concerned to respond to external shocks (Briguglio et al., 2006). Inward looking trade policy, based on protection, tends to foster rigidities and to shelter inefficient industries. Such policies are not conducive to economic resilience building. In contrast, trade policies that encourage efficiency and restructuring away from industries that need protection, foster market flexibility and sound macroeconomics, two factors that enable countries to withstand or bounce back from external shocks.

The experience of Malta and Cyprus, who joined the EU in 2004, is a case in point. Both are small island states, the former with a population of about 400 thousand and the latter with approximately twice that population. Both have experienced gains from trade due to the dismantling of trade barriers with other EU member states and have adopted economic policies which are conducive to stability and market flexibility.

5. Conclusions and Policy Implications

This chapter has discussed CARICOM's orientation in external trade negotiations in the context of the economic development agenda and resilience building of the region.

Trade policy adopted by CARICOM states does not seem consistent with its development imperatives. There remains excessive fear that liberalisation will result in undermining the fundamentals of especially the smaller economies and weaken their fiscal systems. However, while there may be a basis for such fear, not sufficient attention is being given to the opportunities that may be realised from liberalisation. If the Caribbean region is to pursue development that fosters economic resilience, then it needs to revisit its trade policy orientation and carry out a thorough appraisal of this policy in the context of its economic growth and development priorities.

Services will continue to be the main driver of economic growth for most members, so trade policy must be offensive in that area. As for manufactures, the region should consider tariff liberalisation on most products except perhaps for the very sensitive products, deriving either from fiscal revenue or domestic production interests. But, even for these sensitive products further analysis needs to be carried out to determine whether or not revenue loss due to rate reduction (not elimination) could be offset by gains due to larger trade volumes. As argued above, there is the need for fiscal reform in CARICOM states and trade agreements could offer a stimulus for such reform.

As for building economic resilience, it would seem that unless the specialisation agenda is taken seriously, the prospects for building economic resilience will remain weak. Resilience for small economies, like those of CARICOM, can only be built if trade policy fosters market flexibility and sound macroeconomic policies, permitting enterprises to specialise in those areas where they can compete effectively.

The benefits of trade liberalisation are obvious in the region, as members of CARICOM with significant orientation towards liberalisation have

grown faster and more consistently than those that are not. It seems therefore that the region as a whole would better serve itself by pursuing a more liberal trade policy than has been done so far.

References

- Briguglio, L., Cordina, G., Farrugia, N. and Vella, S. (2006). "Conceptualising and Measuring Economic Resilience." In Briguglio, L., Cordina, G. and Kisanga, E. (eds) *Building the Economic Resilience of Small States*. Malta: Islands and Small States Institute, University of Malta and London: Commonwealth Secretariat: 265-288.
- CARICOM (2002). *CARICOM's Services Trade: 1990-2000*. Goergetown: CARICOM Secretariat.
- CARICOM (2005). *CARICOM's Trade: A Quick Reference to some Summary Data (1996-2001)*. December, Goergetown: CARICOM Secretariat
- CARICOM (2007). *Some Community Milestones: CARICOM Single Market and Economy*. Goergetown: CARICOM Secretariat
- CARIFORUM (2007). *Economic Partnership between the CARIFORUM States of the one Part and the European Community and its Member States of the other Part*. Available at: www.tradeind.gov/misc/EPA/EPA%20Text_Final.pdf / .