

Trade Competitiveness Briefing Paper

Brexit: Challenges and Opportunities for Jamaica and Other CARIFORUM Countries

Olayinka Bandele and Rashmi Banga



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By Olayinka Bandele, Trade Adviser, Trade Competitiveness Section, Trade Division, Commonwealth Secretariat (email: y.bandele@commonwealth.int); and Rashmi Banga, Adviser and Head, Trade Competitiveness Section, Trade Division, Commonwealth Secretariat (email: r.banga@commonwealth.int).

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The *Trade Competitiveness Briefing Paper* series provides evaluative and strategic research on new and emerging trade issues of relevance to the Commonwealth member countries. The series focuses on the practicalities of addressing these new issues as well as long existing (but still very current) policy challenges in a time-bound, targeted and effective manner; taking into account both opportunities and challenges that emerge due to changes in global trade landscape. The views expressed here are those of the author(s) and do not necessarily represent those of the Commonwealth Secretariat.

For more information, contact the Series Editor: Dr Rashmi Banga, r.banga@commonwealth.int.

Abstract

This paper analyses the implications of a new preferential trading relationship between CARIFORUM countries and the UK. It is estimated that such a new trade agreement could increase Jamaica's imports from the UK by 23 per cent annually, which would partly comprise trade diversion (14 per cent) with the remainder being new imports. As Jamaica already has duty-free, quota-free (DFQF) access to the UK goods market, any increase in its exports would be new exports. It is estimated that there is potential to increase exports in the new products by 33 per cent. Given the CARIFORUM-EU EPA, it is untenable for the UK to opt for a bilateral preferential trade agreement or EPA with Jamaica without including its Caribbean neighbours. Such a move would be both time-consuming and a disproportionately costly proposition for the UK, and would arguably undermine the regionalisation agenda. A CARIFORUM-UK EPA covering both goods and services is a possible way forward.

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Keywords: Brexit, European Union, CARIFORUM, United Kingdom, Jamaica, Economic Partnership Agreements (EPAs)

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Abbreviations and acronyms

ACP	African, Caribbean and Pacific Group of States
AfT	aid-for-trade
Brexit	'British Exit' from the EU
CARICOM	Caribbean Community
CARIFORUM	regional forum comprising CARICOM countries plus Dominican Republic
CBERA	Caribbean Basin Economic Recovery Act
CF	CARIFORUM
CSME	CARICOM Single Market and Economy
DFQF	duty-free, quota-free (access)
EDF	European Development Fund
EPA	Economic Partnership Agreement
EU	European Union
EU27	EU member countries excluding the UK
FDI	foreign direct investment
GDP	gross domestic product
HS	Harmonized System
MFN	most-favoured nation (status)
MRA	mutual recognition agreement
ODA	overseas development assistance
OECS	Organization of Eastern Caribbean States
PTA	preferential trade arrangement
SIDS	small island developing states
SME	small and medium enterprise (sector)
SPS	sanitary and phytosanitary
WTO	World Trade Organization

1. Summary¹

- In June 2016, the UK electorate voted in a referendum on so-called ‘Brexit’, which resulted in a majority in favour of leaving the European Union (EU). The UK government intends to honour the referendum result and is committed to trigger Article 50 of the EU Lisbon Treaty, which provides formal notification to the EU Commission of the UK’s intention to depart from the EU.
 - The potential for the UK economy to contract over the period of extrication from the EU will also have consequences for CARIFORUM² countries, as the UK is a major trade destination for their exports. In 2015, CARIFORUM countries’ total merchandise exports to the UK were US\$303 million; in comparison to US\$770 million to ‘EU minus UK’.
 - The UK ranks fourth as an export destination for Jamaica, behind the USA, Canada and the Netherlands. Jamaica’s trade with the UK by far exceeds its volume of trade with most countries in the EU, as around 35 per cent of its exports go to the UK. In 2015, Jamaica’s merchandise exports to the UK were valued at US\$77 million; as compared to US\$134 million to ‘EU minus UK’.
 - CARIFORUM trade with the EU is governed under the CARIFORUM–EU Economic Partnership Agreement (EPA), which came into effect in 2008. Once the UK officially leaves the EU (after negotiations with the EU are concluded), its arrangements to trade with CARIFORUM under the EPA will fall away unless a transitional arrangement is put in place. Any transitional agreement may require a World Trade Organization (WTO) waiver (Article 9).
 - This paper analyses the implications of a new preferential trading relationship between CARIFORUM countries and the UK. It is estimated that such a new trade agreement could increase Jamaica’s imports from the UK by 23 per cent annually, which would partly comprise trade diversion (14 per cent) with the remainder being new imports. As Jamaica already has duty-free, quota-free (DFQF) access to the UK goods market, any increase in its exports would be new exports. There is a potential to increase exports in the new products by 33 per cent.
 - Given the CARIFORUM-EU EPA, it is untenable for the UK to opt for a bilateral preferential trade agreement or EPA with Jamaica without including its Caribbean neighbours. Such a move would be both time-consuming and a disproportionately costly proposition for the UK, and would arguably undermine the regionalisation agenda. A CARIFORUM-UK EPA covering both goods and services is a possible way forward.
 - It is noted that despite the 100 per cent DFQF access offered to CARIFORUM countries under the CARIFORUM-EU EPA, the region has not been able to penetrate the EU market due to limitations in productive capacity. In 2014, the EU released a five-year review of the EPA, which revealed that efforts to improve the productive capacities of CARIFORUM states in order to take advantage of the EPA had largely not been realised.
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2. Context

On 23 June 2016, the UK electorate voted in a referendum on ‘Brexit’³ to leave the EU, with a majority of 52 per cent. The UK government has clearly voiced its intent to honour the referendum result and trigger Article 50 of the Lisbon Treaty (the legal instrument that formally provides notification of the country’s

intention to leave the EU) by the end of March 2017. After Article 50 is served (on the European Council of EU Leaders), the UK will have two years to negotiate its way out of the EU, a timeline that may only be extended with the unanimous agreement of the EU27 (union members, excluding the UK). This creates

considerable pressure for the UK to prioritise its trade and investment position vis-à-vis the EU in the shortest timeframe, clearly securing the best deal/package it can, given the constraints it faces. Clearly, Britain faces an uncertain future as it undergoes the unprecedented, highly complex process of disentangling itself from the EU after more than four decades of membership. There are two important factors [to be aware of with regards to this process: should the UK not reach an agreement with the EU within the two-year negotiating window, and should the negotiation timeframe not be extended, the country would revert to World Trade Organization (WTO) terms, requiring tariffs under the most-favoured nation (MFN) structure to be imposed with its EU27 trading partners.

Currently, the heightened uncertainty and anticipated impact of Brexit has led several countries such as Japan (Merrick 2016; Financial Times n.d.) and India to reconsider their existing and important investments with the UK (post-Brexit), and indeed within an EU27 context. Additionally, some other EU countries have arguably already started to feel the impact of the Brexit process, with Ireland (Doyle and Champion 2016; *The Journal* 2016) in particular, but also the Netherlands and Belgium, being over-exposed in their trading relations with the UK. Further, one cannot underestimate the potential contagion of retracting EU27 economies transmitting impacts to wider trading partners, including Jamaica. Recent analysis from the UK Department for Exiting the European Union (DExEU) suggests that an exit which results in the UK leaving the common market will inflict a permanent cost of £25 billion on the UK's gross domestic product (GDP) (*The Guardian* 2016). Any contraction of a major global economy in the current global context, particularly for countries of CARIFORUM which trade significantly with the UK and the EU27, will impact on Jamaica's export diversification and trade expansion strategies.

This briefing paper forms part of a series of bilateral analyses being undertaken for Commonwealth member countries to identify challenges and opportunities post-Brexit in their trade and economic engagements with the UK. This paper highlights the existing trade pattern between Jamaica and the UK, and assesses the challenges and opportunities for the Jamaica–UK trade relationship post-Brexit.

In terms of CARIFORUM countries' trade with the EU, the UK typically ranks foremost as an export destination compared to other European countries. The UK has therefore been positioned as the traditional gateway for Caribbean trade into Europe. As the UK prepares to leave the EU, however, CARIFORUM trade with the UK may become disrupted, leading to potential loss of market share for goods that currently receive duty-free, quota-free access. In such a context, the potential for trade diversion rises. A potential opportunity exists for CARIFORUM countries to renegotiate the terms of the CF-EU EPA on the basis that the original 'offer' of the EPA, without the UK being included, will be significantly reduced, particularly in trade in services – for which the Caribbean region has a noted comparative advantage. CARIFORUM states should push for an opportunity to negotiate a preferential agreement with the UK, which potentially better caters to the region's need to deliver on services and improve its productive capacity.

Further consideration should also be given to the range of new products and services that Jamaica could market to the UK, helping to diversify its export basket. In conclusion, Jamaica (alongside other Caribbean countries) can identify opportunities to rekindle its trading relationship with the UK in the post-Brexit environment, bearing in mind the priorities that will emerge for the UK itself as it concludes new trading relationships/free trade agreements (FTAs) going forward.

2.1 Evolution of Jamaica's trade engagements with the UK

Jamaica's relationship with the UK and the European Union has a long and chequered past. Trade between the British Caribbean and the UK during the period 1932–73 was covered by the Commonwealth Scheme of Preferences (1932) and the Commonwealth Sugar Agreement (1951). In 1973, Britain joined the European Economic Community (EEC) and, under its sponsorship, Commonwealth developing countries became engaged in the trade and aid arrangements of former colonies of EEC countries such as France, Belgium and Holland. In joining the EEC (now the EU), the UK ceded all rights to negotiate international trade agreements; that responsibility now resides with the EU, which governs all trade arrangements

including the common external tariff, competition policy and trade in services, among others. Caribbean countries then joined the African, Caribbean and Pacific (ACP) Group of States in 1975 and negotiated the Lomé Convention, which in the more than 40 years since has led to the negotiation of four Lomé Conventions and the 2000 Cotonou Partnership Agreement, which expires in 2020.

The Lomé Conventions became the definitive framework for trade and development co-operation between the EU and ACP states. However, this relationship was asymmetrical or non-reciprocal, providing for market access preferences for ACP countries to the EU. For example, the Lomé Convention allowed for commodity protocols through which ACP countries were allocated quotas or fixed quantities of bananas, sugar, beef and rum etc., free of duty. Under the protocols, ACP exporters were guaranteed the same price as EU producers, and could also benefit from a compensatory mechanism to mitigate losses in export earnings due to price fluctuations.

This trading arrangement was not in compliance with (WTO) rules and led to a series of challenges. A case in point is the banana and sugar disputes that took place at the WTO from 1996 to 2008, which led to the EU having to bring its trade arrangements with the ACP in line with WTO rules and resulted in the EU negotiating Economic Partnership Agreements (EPAs) with the ACP countries. To support the regionalisation agenda preferred by the EU, the development co-operation model, CARICOM expanded into CARIFORUM within the ACP context, with Suriname, Haiti and Dominican Republic joining the ACP. The EPAs require a reciprocal liberalisation process between ACP states and European Union countries, while accounting for the asymmetry of economic development between the two negotiating territories.

CARIFORUM negotiations with the EU from 2004 to 2007 concluded the first and only comprehensive EPA with the EU, which came into effect in 2008. EPAs for the other five regions are at various stages of negotiation and completion. The CF-EU EPA was intended to herald a new era for Caribbean exports, beyond trade with the EU and after many decades of exports dominated by sugar, rum, bananas and alumina. Post-Brexit, when the UK formally leaves the EU, a new trading relationship will need to be negotiated between the CARIFORUM and the UK.

Jamaica is a highly open, mixed economy, with increasing reliance on services trade particularly tourism, and increasingly business process outsourcing and the creative industries) within its basket of exports. Consequently, the impact and opportunities from Brexit for Jamaica could be considered in particular from the perspective of increasing trade in services.

The ratio of total trade in goods and services is estimated at 75 per cent of GDP. Jamaica accounts for only 0.01 per cent of global merchandise trade and 0.06 per cent of services trade (COMTRADE, WITS, World Bank data 2016) and therefore as a lone country cannot be considered a major trading partner to the UK. Its relationship with the UK from a trade and investment perspective must be considered in the context of its broader regional influence, remittance flows and linkages within the small and medium enterprise (SME) sector of the UK economy. UK exports to the Caribbean totalled £1.1 billion and bilateral trade amounted to £2.55 billion in 2014. In 3 of the 14 years from 2000 to 2014, CARIFORUM had a negative trade balance with the UK. In 2015, UK exports to the region amounted to US\$393 million, while exports from CARIFORUM to the UK were US\$303 million. (Comtrade, WITS, World Bank 2016).

Coverage under the CARIFORUM-EU EPA provides for several critical sectors that could expand Jamaica's merchandise and services trade with the UK. Conversely, should Jamaica (and other CARIFORUM countries) lose preferential access to the UK market after Brexit, the impact on Jamaica's exports will be significant. Initiatives such as the Jamaica National Export Strategy (NES) (Government of Jamaica 2015), the forthcoming Foreign Trade Policy and Action Plan, Logistics Initiatives and programmes to streamline trade facilitation could greatly assist Jamaica's drive to expand exports to the UK and beyond.

The steep devaluation of the pound sterling against the US dollar (a depreciation of 19 per cent since the Brexit referendum, to date) and euro will also have a long-lasting effect on the UK economy, particularly if the lower equilibrium rate remains in the medium term. While the UK economy may experience ongoing currency devaluation shocks throughout the Brexit process, perhaps reaching \$1.00: £1.10 or parity (i.e., \$1: £1) with the US dollar, this could have a knock-on effect for those developing

countries, including small island developing states (SIDS), that significantly trade with the UK. This is particularly relevant for SIDS whose currencies closely track the US dollar, implying cheaper UK imports but lower trade value for their exports to the UK.

Managing market instability and the need for a 'transition' package or framework to

maintain developing countries' market access to the UK will be required in the short to medium term, in time for the UK's withdrawal from the EU. A useful forum to discuss such issues could be the UK/Caribbean Forum, which meets every two years to discuss matters of importance to the UK/Caribbean relationship.

3. Jamaica's existing trading arrangements

Jamaica has a range of existing trading agreements regionally, with its major neighbouring trade partners and, of crucial significance in the current context, the EU, which will have implications for any new trading relationship developed with the UK, post-Brexit.

3.1 CARICOM Single Market and Economy (CSME)

The CARICOM Single Market and Economy (CSME) was established by CARICOM on 1 January 2006 on signature of its implementation document by six original member states. The CSME among other objectives, supports the creation of economies of scale in the region. It maintains a fundamental principle of equal rights and treatment under the law of all citizens of member states in the market, including non-discriminatory practices and most-favoured nation (MFN) status. The free movement of services, people, goods and capital are also fundamental elements embedded in the agreement. A few member states of CARICOM are not members of the CSME – for example, The Bahamas. When the CSME is fully implemented, (it was due to come into effect in 2015) goods imported into Jamaican (or any other CARICOM country) will require the collection of taxes at that first point of entry and will consequently be eligible for free circulation into any other CSME country without further duty being applied. However, following the Global Financial Crisis of 2007–08 and global recession, in 2011 CARICOM Heads of Government declared⁴ full implementation of the CSME would be put on hold and therefore such free circulation has yet to be effected.

3.2 CARIFORUM-EU EPA

The objective of the EU regional EPAs with ACP countries is to foster economic growth of the partners while eradicating poverty, creating jobs and accelerating integration of the ACP countries into the global economy. The challenge of providing reciprocal treatment to the European Union is self-evident; yet despite this, the CARIFORUM region is the first of the ACP regions [to have concluded and signed an EPA with the EU, although under implementation, few countries still need to ratify the agreement].

The services element of the EPA is quite comprehensive in scope and covers intellectual property and trade related matter. Trade in services works based on requests for market access and counter offers of national treatment for specific sectors or subsectors. The CARIFORUM–EU EPA also comes with an EU aid-for-trade (AfT) component.⁵ Under the EPA, the EU offers Caribbean states 100 per cent duty-free, quota-free access (DFQF) for all goods, except arms and ammunition,⁶ from date of provisional application in December 2008. Conversely, Caribbean states, Jamaica included, have up to 25 years to cut import tariffs, excluding the approximate 17 per cent of tariff lines for goods on a so-called 'sensitive list'. Additionally, both CARIFORUM and EU countries have excluded various modes of supply for trade in services. There is also the capacity for Caribbean countries to respond/act should they experience sudden surges in exports which affect/undermine local production.

The CARIFORUM-EU EPA covers trade in merchandise goods, services and other areas yet to be integrated into the WTO framework, such as competition policy, innovation, public

procurement, environmental and labour standards. The EU is the Caribbean region's second largest trading partner, after the USA: in 2015, trade between the two regions amounted to more than €11 billion. However, the region typically runs a trade deficit with the EU; in 2015, this amounted to €2.9 billion.⁷

Within the context of Brexit, a moot point is whether the CARIFORUM-EU EPA may be revisited under the new reality of an EU27. Given that few would have conceived of the UK or any other EU member deciding to leave the union within a few years of the EPA being signed, Caribbean countries may now consider that trade in services, which is of primary importance to CARIFORUM, will be devalued in an EU that does not include the UK. The implications for a reconsideration of the CARIFORUM-EU EPA creates a more convoluted negotiation of any new package directly between CARIFORUM and the UK, as political economy⁸ considerations may nudge the Caribbean region into clarifying its position with the EU before negotiating or finalising a deal with the UK. This will be a complex discussion – one that will need to take into account the mix of support the region receives in EU development assistances, UK bilateral overseas development assistance (ODA), as well as deliberation over which EU countries receive the majority share of Caribbean exports destined for the region.

3.3 USA – Caribbean Basin Initiative: Caribbean Basin Economic Recovery Act/ Caribbean Basin Trade Partnership Act (CBERA/CBTPA)

The Caribbean Basin Initiative (CBI) provides beneficiary countries with duty-free access to the US market for most goods. The CBI trade programme is intended to support Caribbean Basin economies in their economic development and export diversification efforts. The CBI comprises both the Caribbean Basin Economic Recovery Act (CBERA) and the Caribbean Basin Trade Partnership Act (CBTPA), these acts have different eligibility countries and criteria. The CBERA has no fixed expiration date, although its duration appears to be linked to the CBTPA. CBTPA applies to both textile goods and non-textile goods, but most claims are for textile imports. The CBTPA will be in force until September 2020.

3.4 Caribbean-Canada Trade Agreement (CARIBCAN)

The Caribbean-Canada Trade Agreement (CARIBCAN) is a preferential trade agreement providing duty-free access to Canada for goods, excluding a small list of mainly textiles, apparel and lubricating oils. The Rules of Origin in the CARIBCAN agreement stipulate that at least 60 per cent of the ex-factory price of goods to be shipped to Canada must originate from one or more of the beneficiary countries. Duty-free status is automatically applied where inputs to the production process of final goods are certified as being 'wholly grown or manufactured within the Commonwealth Caribbean or Canada.'

3.5 CARICOM-Dominican Republic FTA

The CARICOM-Dominican Republic FTA was signed 22 August 1998 and provisionally entered into force in most of the Caribbean (with the exceptions of Suriname, Guyana and The Bahamas) in 2001. The FTA strengthens the trade relationship between the parties and seeks to expand the sale of goods between them. It seeks to eliminate non-tariff barriers to trade, and establishes the Rules of Origin and the harmonisation of technical sanitary and phytosanitary (SPS) processes. The agreement has gradually incorporated liberalisation of the movement of capital and the overall strengthening of the parties' competitiveness. Trade in services remains part of the agreements built in agenda.

3.6 Other trade agreements

Other trade agreements include: the CARICOM-Venezuela Trade and Investment Agreement (TIA); CARICOM Costa Rica FTA; CARICOM-Colombia Trade, Economic and Technical Cooperation Agreement; and the CARICOM-Cuba Trade and Economic Cooperation Agreement. Of these agreements, the CARICOM-Venezuela TIA, offers good potential for duty-free access for CARICOM goods, while Venezuelan goods enter CARICOM on a MFN basis. However, to date the CARICOM-Venezuelan TIA has not to date translated into increased exports for Jamaican producers. In 2014, the volume of Venezuelan exports into Jamaica was second

only to those from the USA. Petroleum products are imported by several CARICOM member states under the PetroCaribe Agreement with Venezuela.

4. UK-Jamaica: Existing trade pattern

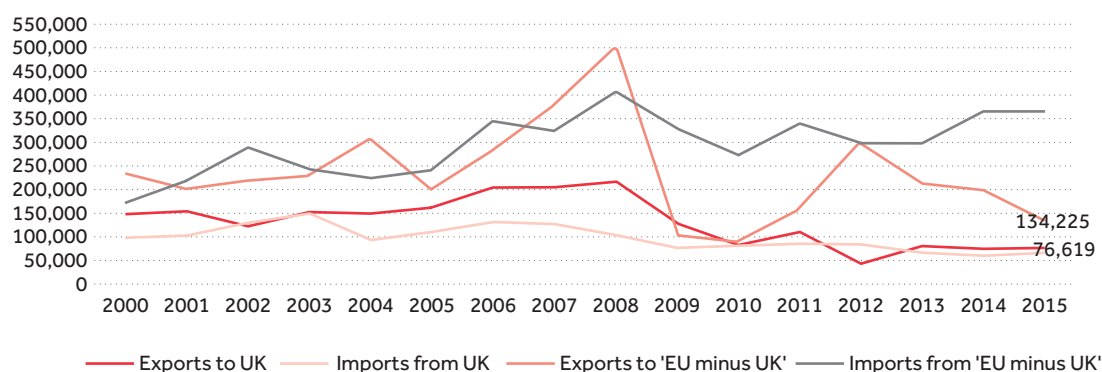
Jamaica's trade balance with the UK was mostly positive between 2000 and 2015, although there has been a marked trend since 2008 towards the differential narrowing. As depicted in Figure 1 below, there was a marked drop in exports to the UK from 2008, corresponding with the global financial crisis (GFC) and exchange rate instability. Conversely, Jamaica's trade balance with the EU27 has largely been negative, and appears to be widening after a sharp fall following the Global Financial Crisis. Over the period, Jamaican exports to the EU27 decreased from US\$234 million in 2000 to US\$134 million in 2015, while imports increased from US\$172 million to US\$365 million over the same period, resulting in a deficit of US\$231 million. (COMTRADE, WITS, World Bank accessed 2016) Interestingly, the corresponding deficit for trade with the UK had narrowed by 2015, whereas the previous decade up to 2000 recorded a mixture of surplus and deficit years. Jamaica's mixed fortunes with regards to its trade balance with the UK has been impacted by a decline in its traditional exports of bananas and alumina, while its increase in non-traditional exports has not been sufficient to consistently bridge the gap.

Over the past 30 years, Jamaica's merchandise exports to the UK and the EU have been little changed. Traditional exports like rum and

sugar still feature significantly within the mix of goods exported to the UK and the EU27. This is typically the same for Jamaica's trade with its top export destination – the USA. In 2015, sugars and sugar confectionery dominated Jamaica's exports to the UK, comprising 63 per cent of the top ten by export value. In the context that the top ten Jamaican merchandise exports overall comprise most of Jamaica's total exports to the UK, this indicates a lack of export diversification. The UK's top ten exports to Jamaica, meanwhile, comprise approximately 76 per cent of its total exports to Jamaica; however, these exports are evenly spread, across machinery and equipment, finished goods and intermediate inputs. The UK's exports of vehicles (other than railway or tramway rolling stock) comprise only 18 per cent of its top ten by export value. (COMTRADE, WITS, World Bank accessed 2016).

Jamaican exports to the UK have ranked in the top five destinations for its global exports for decades. Currently, the UK ranks fourth among Jamaica's export destinations after the USA, Canada and the Netherlands. It should be recognised that the Netherlands is ranked among Jamaica's top four major export markets due to aluminium oxide products which account for over 95 per cent of this trade. In 2015, the UK imported US\$77 million in

Figure 1. Jamaica's trade with the UK and the 'EU minus UK' (US\$1,000): 2000–2015



Source: COMTRADE, World Integrated Solutions (WITS), World Bank

merchandise goods from Jamaica, while the rest of the EU27 imported a total of US\$134 million. CARIFORUM countries' total merchandise exports to UK were US\$303 million, as compared to US\$770 million to 'EU minus UK'. CARIFORUM's share in EU global merchandise trade amounted to 0.4 per cent, of which Jamaica's share of exports was primarily to the UK and the Netherlands. (COMTRADE, WITS, World Bank – accessed 2016).

Jamaica's trading relationship with the UK must be considered in the context of its broader regional influence and linkages within the SME sector of the UK economy. UK exports to the Caribbean totalled £1.1 billion and bilateral trade £2.55 billion in 2014. Jamaica has been able to largely maintain its non-traditional share of exports to the UK, but has struggled to reclaim its merchandise trade since the significant fall in its goods trade following the global financial crisis.

Diaspora trade has made a significant contribution to the pattern of Jamaica's trade with the rest of world. In this context, this has principally involved trade in Jamaican-sourced produce and services to the diaspora communities of the UK, USA and Canada. This is reflected in the robust trade figures in specific goods and services during challenging global financial periods.

Table 1 depicts Jamaican imports from and exports to the UK, according to Harmonized System (HS) codes for 2015. The data reveal that Jamaica's top five imports from the UK were:

- vehicles other than railway or tramway rolling stock (i.e. motor cars, parts and accessories of motor vehicles, trailers and semi-trailers; over half of import value came from motor vehicles between 1,500cc to 2,500cc);
- boilers, machinery and mechanical appliances (engines for internal combustion of vehicles, fuel lubricating or cooling pumps, compressors used in refrigerating equipment, heat exchange units, parts for dish-washing machines, machinery for filling, closing or sealing bottles, cans or boxes, pressure reducing valves, other appliances such as taps, cocks, valves etc.);
- pharmaceutical products (other medicaments including penicillin, antibiotics, vitamins and adhesive dressings);
- organic chemicals (pro-vitamins and their derivatives and other organic compounds); and

- electrical machinery and equipment and parts (electric generating sets and rotary converters, machines for reception, conversion and transmission of voice, images or other data including switching or routing apparatus, apparatus for protecting electrical circuits, processors and controllers etc.)

Breaking down Jamaica's top exports to the UK in 2015 reveals that sugar confectionery, not containing cocoa, was a significant proportion, as was water, including mineral waters and aerated waters containing added sugar or other sweetening matter, beverages, spirits and vinegar.

Trade between CARIFORUM countries and the UK has been experiencing a downward trend, with exports declining from US\$746 million in 2008 to US\$300 million in 2015, while imports have declined from US\$634 million in 2008 to US\$300 million in 2015 (see Figure 2). This trend has occurred despite the CARIFORUM-EU EPA, which was signed and brought into effect in 2008. It is possible that Jamaica's deteriorating exchange rate over the period could account for some of this change; nonetheless, whatever the source of the downward trajectory in exports, there is an urgent need to reverse this trend.

4.1 Likely changes in UK-Jamaica trade post-Brexit (following a new CARIFORUM-UK trade deal)

Post-Brexit, the UK will no longer be party to the CARIFORUM-EU EPA, hence why CARIFORUM countries will no longer have preferential access to the UK market. During the potential vacuum whilst no trade agreement is in place, Jamaican and UK exporters will face tariffs in each other's markets. The potential for trade diversion in this context is high. UK exports into Jamaica will face MFN tariffs averaging 5 per cent across the majority of export goods, by value of exports, with MFN tariffs of up to 23.75 per cent are applied across 4 major exports in the top ten exports. After Brexit, if no preferential trade agreement is in place Jamaica would face MFN tariffs on exports to the UK. The highest tariffs on Jamaica's top 5 exports to the UK range from 12.5 per cent to 40 per cent. The highest tariffs faced by Jamaican exporters into the UK market would be on beverages and spirits (by volume), at around 30 per cent. MFN

Table 1. Jamaican and UK trade: Top ten exports and imports

Jamaica's exports to the UK in 2015			Jamaica's imports from the UK in 2015		
HS Code	Description	Value (US\$1,000)	HS Code	Description	Value (US\$1,000)
17	Sugars and sugar confectionery	48,495	87	Vehicles other than railway or tramway rolling stock and parts and accessories thereof	9,024
22	Beverages, spirits and vinegar	10,192	84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	8,238
20	Preparations of vegetables, fruit, nuts or other parts of plants	5,182	22	Beverages, spirits and vinegar	6,331
7	Edible vegetables and certain roots and tubers	2,917	39	Plastics and articles thereof	5,837
21	Miscellaneous edible preparations	2,377	49	Printed books, newspapers, pictures and other products of the printing industry, etc.	5,533
8	Edible fruit and nuts; peel of citrus fruit or melons	2,363	30	Pharmaceutical products	4,818
9	Coffee, tea, maté and spices	2,263	29	Organic chemicals	4,468
19	Preparations of cereals, flour, starch or milk; pastry cooks' products	2,219	85	Electrical machinery and equipment and parts thereof; etc.	2,987
12	Oil seeds and oleaginous fruits, miscellaneous grains, seeds and fruit; etc.	191	21	Miscellaneous edible preparations	1,614
33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations	95	38	Miscellaneous chemical products	1,281

Source: COMTRADE, WITS, World Bank

Figure 2. CARIFORUM countries' trade with the UK (in US\$1,000): 2000–2015



Source: COMTRADE, World Integrated Solutions (WITS), World Bank

Tariffs on invert sugar, shelled edible nuts and frozen fruit juice are expected to be 40 per cent. The highest tariffs faced by UK exports into Jamaica are on motor vehicles followed by car parts and accessories, nuts and electrical filaments, and combustion piston engines.

An FTA between CARIFORUM countries and the UK could boost trade. The likely changes in trade between the UK and Jamaica and other CARIFORUM countries following such an agreement are estimated in what follows using SMART simulations.

4.2 Methodology used for estimating impact of a CARIFORUM-UK FTA on imports into CARIFORUM countries

Post-Brexit, it is posited that there could be a significant impact on the CARIFORUM region unless specific steps are taken by the UK to support the smooth transition of its trading relationship with the region, in order to avoid disruption. One way of doing this could be to prepare for a possible CARIFORUM-UK FTA coming into force immediately post-Brexit, with a suitable exclusion list included. Some countries, such as India, have started preparing for such an eventuality. Such an FTA could provide

new opportunities for the CARIFORUM countries, including Jamaica, in the UK market and *viceversa*. To estimate the likely changes, SMART simulations (WITS, World Bank) have been used. Box 1 provides explanation of these simulations.

Undoubtedly much will depend on the negotiations between the UK and the EU and the final deal negotiated between them. A maintained zero tariff framework between the remaining bloc and the UK should not greatly impact on Jamaica and its Caribbean region partner countries, as the mix of products typically exported to the UK are not in direct competition to EU27 exporters. Furthermore, CARIFORUM exports into the EU market already face no or low tariffs in their traditional commodities under the EPA, suggesting that the most likely outcomes are that this status quo will be maintained in the UK market post-Brexit.

4.3 The estimated rise in Jamaica's imports from the UK following a CARIFORUM-UK FTA

Using SMART simulations, we estimate the impact of a possible FTA between CARIFORUM and the UK, in which tariffs are maintained

Box 1. The model used

Using a WITS SMART simulation model, estimations are made to assess the impact of a possible FTA between CARIFORUM countries and the UK, where all CARIFORUM countries and the UK bring down their tariffs to zero. Detailed estimations are presented for Jamaica. One of the advantages of this approach is that it is possible to estimate tariff reduction at a much disaggregated product level. Such disaggregated product - level estimations of tariff liberalisation are not possible in any other model. The model not only estimates the extent of imports that may come from the tariff cuts into a member country, but also provides results at the product level on the trade creation, i.e., new imports that may come from the partner country and trade diversion, recognising from which county the imports would be diverted.

at zero rates (for Caribbean exports) as is the case under the CARIFORUM-EU EPA. This analysis can help in identifying the exclusion list for the CARIFORUM in case of an FTA. Simulation results indicate that the UK's exports to Jamaica would increase from US\$76.5 million to US\$96.6 million, representing an almost 26 per cent increase per annum. Of this rise in imports, the trade creation effect amounts to approximately US\$9.2 million, i.e., 56 per cent is trade creation (new imports from the UK). The remaining 44 per cent is effectively trade diversion; i.e., imports will be diverted

from other major trading partners and will be imported from the UK.

While the results are arrived at the six-digit product disaggregated level, the estimated changes in the value of the top ten imports from the UK are listed in Table 2, disaggregated at the two-digit product level, subsequent to a CARIFORUM-UK FTA. The top ten UK exports to Jamaica post-FTA will be vehicles other than railway or tramway. Distilling this category further it is noted that actual exports in this category are motor vehicles with a cylinder capacity exceeding 1500cc and not 3000cc

Table 2. Estimated changes in Jamaica's top ten imports from the UK following a CARIFORUM-UK FTA

Rank	HS code	Description	Jamaica's imports from the UK in 2015 (US\$1,000)	Trade creation effect (US\$1,000)	Trade diversion effect (US\$1,000)	Total trade effect (US\$1,000)	Estimated imports to Jamaica FTA (US\$1,000)	Change in Jamaica's imports (%)
1	87	Vehicles other than railway or tramway etc.	9,024	1,568	1,788	3,356	12,316	37
2	24	Tobacco and manufactured tobacco substitutes	118	3,190	64	3,254	3,344	3,592
3	30	Pharmaceutical products	4,818	498	764	1,262	5,977	27
4	39	Plastics and articles thereof	5,837	443	603	1,046	6,782	18
5	84	Boilers, machinery and mechanical appliances etc.	8,238	363	433	796	8,323	11
6	85	Electrical machinery and equipment and parts thereof	2,987	423	320	742	3,173	31
7	22	Beverages, spirits and vinegar	6,331	249	342	592	6,912	9
8	21	Misc. edible preparations	1,614	238	340	578	2,192	36
9	19	Preparations of cereals, flour, starch or milk	700	182	250	432	1,126	62
10	73	Articles of iron or steel	1,163	164	196	359	1,481	32
		Total of top 10	40,831	8,448	5,283	13,731	54,562	34
		Total (all imports incl. not listed)	76,550	11,272	8,832	20,105	96,654	26%

Source: Author's estimates based on SMART Simulations

(HS code 870323), with applicable tariff of 23.75 per cent; and motor vehicles with a cylinder capacity exceeding 2500cc (HS code 870333), with an applicable tariff of 17.5 per cent.

Imports of tobacco and manufactured tobacco substitutes indicates an increase of 3592 per cent. However, this will not be realised due to the regional commitments under the Framework

Convention on Tobacco Control. Within this category the only product item is cigarettes containing tobacco (HS code 240220). An increase in imports of pharmaceutical products, specifically therapeutic medicaments (HS code 300490) and penicillin (HS code 300410) is also significant, representing a change in Jamaica's imports in this product line of 27 per cent.

5. Trade diversion from the EU

A zero tariff regime between Jamaica and the UK would lead to some trade diversion from the EU countries as well as other competitors, when Jamaica would prefer importing from the cheaper source. This trade diversion will not be substantial and amounts to around US\$ 8.8 million. Table 3 reports the trade diversion above US\$ 100,000 from the different countries.

5.1 The estimated rise in imports of CARIFORUM countries from the UK following a CARIFORUM-UK trade deal

The WITS simulation results estimate that following a possible CARIFORUM-UK FTA, the

likely increase in imports of CARIFORUM countries is around 20 per cent, rising from US\$ 630 million to US\$ 755 million, with maximum imports into Dominican Republic, followed by Trinidad and Tobago and Jamaica (Table 4). In terms of percentage changes in imports, maximum rise will be experienced by Antigua and Barbuda (29%) followed by Haiti (28%) and Bahamas (26%) and Jamaica (26%). Trade creation is more dominant as compared to trade diversion for most of the CARIFORUM countries.

Table 5 reports the top 10 products imported from the UK. This list will help in identifying the sensitive products under this FTA. These

Table 3. Trade diversion in Jamaica's imports

Partner name	Imports before (US\$1,000)	Imports after (US\$1,000)	Change in imports (US\$1,000)
United States	2,122,701	2,120,149	-2,551
Japan	179,831	178,732	-1,099
Germany	77,661	77,222	-438
China	332,839	332,415	-423
Trinidad and Tobago	764,541	764,143	-398
Mexico	272,121	271,934	-187
Canada	100,489	100,313	-176
El Salvador	20,713	20,559	-153
Argentina	12,711	12,558	-153
India	37,584	37,443	-140
Belgium	52,212	52,082	-130
Turkey	46,447	46,326	-121
Panama	37,329	37,215	-115
France	42,999	42,898	-101
Total	4,100,178	4,093,992	-6,186

Source: Author's estimates based on SMART Simulations

Table 4. Estimated changes in CARIFORUM countries' imports from the UK post-FTA

	Imports in 2015 (US\$1,000)	Trade creation effect (US\$1,000)	Trade diversion effect (US\$1,000)	Trade total effect (US\$1,000)	Likely imports post FTA (US\$1,000)	Change in imports (%)
Dominican Republic	163,967	21,765	8,204	29,969	193,935	18
Trinidad and Tobago*	129,394	14,098	11,431	25,529	154,923	20
Jamaica	76,550	11,272	8,832	20,105	96,654	26
Barbados*	64,920	7,479	5,569	13,048	77,968	20
The Bahamas	23,377	2,938	3,251	6,189	29,566	26
Antigua and Barbuda	18,868	2,968	2,410	5,379	24,247	29
Guyana	48,715	2,704	2,466	5,171	53,886	11
Saint Lucia	28,511	1,944	2,102	4,046	32,557	14
St Vincent and the Grenadines	19,315	1,720	1,733	3,453	22,768	18
Haiti	10,555	2,167	786	2,953	13,508	28
Belize	11,082	970	1,030	2,000	13,081	18
Suriname	7,179	1,117	650	1,767	8,946	25
Dominica	8,315	846	852	1,697	10,013	20
St Kitts and Nevis	9,992	751	744	1,495	11,487	15
Grenada	9,785	792	525	1,317	11,102	13
	630,525	73,531	50,585	124,118	754,641	20%

Source: Author's estimates based on SMART Simulations

Note: Depending on the availability of data, for asterisked (*) countries the simulations are undertaken for imports in 2013

include Motor cars and vehicles (mainly cylinder capacity exceeding 3,000 cc; 2,500 cc; and 1,500 cc), spirits (mainly whiskies, Rum and Wines), cigars & cigarettes (HS code 240220), food preparations (HS code 21690), medications (mainly HS code 300490), transmission apparatus (mainly HS code 852550), other furniture parts (mainly wooden furniture), Cane or beet sugar and chemically pure sucrose in solid form, (mainly HS code 170199—others), breads & pastries (mainly HS code 190531—sweet biscuits); and bottles & jars for packaging (mainly HS code 701090—others).

In terms of import of products by country, Table 6 lists the likely top imports into the CARIFORUM countries. We find that motor cars, whiskies and other food preparations form the top products of imports. At present the range of tariffs applied on these products in CARIFORUM countries vis-à-vis the UK is between 15–40 per cent.

5.2 Estimated rise in Jamaica's exports to the UK following a CARIFORUM-UK FTA

The tariff simulation model is unlikely to give any results for the estimated changes in the UK's imports from Jamaica following a CARIFORUM-UK FTA, or EPA+ as tariffs in the UK vis-à-vis Jamaica and other CARIFORUM countries are already zero. Instead we identify the new products (Commonwealth Secretariat 2016) which can be exported by Jamaica and other CARIFORUM countries into the UK following a FTA, which will further boost the trade competitiveness of these countries. The CARIFORUM countries are found to be more competitive in the UK market vis-à-vis the existing exporter. This competitiveness is expected to increase further post-Brexit, especially if the UK does exit the single market. The exports from the CARIFORUM countries to the UK

Table 5. Estimated changes in CARIFORUM countries' top ten imports from the UK following a CARIFORUM-UK FTA

HS 4-digit codes		Imports in 2015	Trade creation effect (US\$1,000)	Trade diversion effect (US\$1,000)	Trade total effect (US\$1,000)	Change in Imports (%)
8703	Motor cars and other motor vehicles principally designed for the transport of persons (other than those of heading 87.02),	37,366	12,409	8,255	20,664	55
2208	Undenatured ethyl alcohol of an alcoholic strength by volume of less than 80 % vol.; spirits, liqueurs and other spirituous beverages.	77,611	13,968	2,306	16,274	21
2402	Cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes.	349	3,292	124	3,416	979
2106	Food preparations not elsewhere specified or included.	9,228	1,355	1,891	3,246	35
3004	Medicaments (excluding goods of heading 30.02, 30.05 or 30.06) consisting of mixed or unmixed products for therapeutic or prophylactic uses, put up in measured doses.	16,465	1,066	1,773	2,839	17
8525	Transmission apparatus for radio-broadcasting or television, whether or not incorporating reception apparatus or sound recording or reproducing apparatus; television cameras, digital cameras and video camera recorders.	7,085	1,250	647	1,898	27
9403	Other furniture and parts thereof.	5,564	941	662	1,604	29
1701	Cane or beet sugar and chemically pure sucrose, in solid form.	5,505	1,115	463	1,577	29
1905	Bread, pastry, cakes, biscuits and other bakers' wares, whether or not containing cocoa; communion wafers, etc.	2,550	601	905	1,506	59
7010	Carboys, bottles, flasks, jars, pots, phials, ampoules and other containers, of glass, of a kind used for the conveyance or packing of goods; preserving jars of glass; stoppers, lids and other closures, of glass.	7,584	346	1,025	1,371	18

Source: Author's estimates based on SMART Simulations

Table 6. Estimated top imported products in CARIFORUM countries from the UK post-FTA

	HS 6-digit code	Description
Dominican Republic	220830	Whiskies
Trinidad and Tobago	870332	Motor cars Of a cylinder capacity exceeding 1,500 cc but not exceeding 2,500 cc
Jamaica	870323	Motor cars Of a cylinder capacity exceeding 1,500 cc but not exceeding 3,000 cc
Barbados	852550	Transmission apparatus
Bahamas	940360	Other wooden furniture
Antigua and Barbuda	190531	Sweet biscuits
Guyana	210690	Other Food preparations
Saint Lucia	220830	Whiskies
St Vincent and the Grenadines	210690	Other Food preparations
Haiti	870332	Motor cars of a cylinder capacity exceeding 1,500 cc but not exceeding 2,500 cc
Belize	870323	Motor cars of a cylinder capacity exceeding 1,500 cc but not exceeding 3,000 cc
Suriname	170199	Other, cane or beet sugar and chemically pure sucrose, in solid form
Dominica	220830	Whiskies
St Kitts and Nevis	210690	Other Food preparations
Grenada	240220	Cigarettes containing tobacco

Source: Author's estimates based on SMART Simulations

in these products are currently low, probably because of lack of productive/supply capacity. These can therefore be identified as products for potential foreign/domestic investments.

5.3 Methodology used for estimating impact of a CARIFORUM-UK FTA on exports of Jamaica and other CARIFORUM countries to the UK

To identify potential new products which can be exported by Jamaica to the UK and the established exports for which the UK market can be made accessible following the FTA, we use the following methodology.

Analysis undertaken at 6-digit HS level, with average of latest three years used (2013-2015).

- Step 1: Apply thresholds*
Products with exports above US \$1 million (average of 2012-15) are categorised as established exports and between US\$0.3 million to US\$1 million as potential new products.
- Step 2: Identify competitors in the potential markets*

For each of the identified potential new products as well as established exports of Jamaica Identify top ten exporters to the UK.

- Step 3: Competitiveness Analysis*
Undertake competitiveness analyses between Jamaica and each of the competitors in the identified product for exports to the UK.

Similar analysis is undertaken for the CARIFORUM countries.

Three competitiveness indices have been estimated at six-digit level (HS codes), identifying products exported by Jamaica, where Jamaica is not currently among the top five exporters of that product to the UK. This analysis under the New Product, New Market strategy methodology assist in identifying new competitive products that Jamaica could export to the UK following the creation of a CARIFORUM (Jamaica)-UK FTA.

5.4 Likely increase in Jamaica's exports to the UK following a CARIFORUM-UK FTA

Using the above methodology, the results show that Jamaica will be able to export ten new

Box 2. Methodology adopted for estimating competitiveness⁹

The literature generally uses bilateral revealed comparative advantage (RCA) to compare the comparative advantage of a country with that of other countries. However, RCA calculations use only export data and ignore the import content into exports, i.e., the extent of imported inputs that have been used to produce the exported product. To overcome this limitation, we use bilateral RCA in conjunction with contribution to trade balance (CTB) and market position (POS) to compare the competitive advantage between countries. The CTB index is based on imports of the product as well as the exports. If a product adds to the trade balance positively it is identified. This index helps to exclude those products which are mainly traded – imported and then exported with little value addition.

The CEPIL (Centre d'Etudes Prospectives et d'Informations Internationales) has developed an analytical indicator of comparative advantage based on the trade balance instead of relative export structures. A country j would have comparative advantage in product i if the CTB is positive; this means that product i is a strong point of country j , as it contributes positively to the overall balance

The contribution of product k to the trade balance, in relation to total trade flows (X = exports and M = imports), is defined by:

$$CTB = f_{ik} = y_{ik} - g_{ik} \times y_i$$

where,

$$y_i = 1000 \times \frac{X_i - M_i}{X_i + M_i} \quad g_{ik} = \frac{X_{ik} + M_{ik}}{X_i + M_i}$$

Market position

The POS of each country i on product k measures its international competitiveness. If the POS > 0 the product is competitive in the international market and vice versa. POS is calculated as follows:

$$POS_{ik} = 1000 \times \frac{X_{ik} - M_{ik}}{X_{kw} + M_{kw}}$$

products to the UK, of which five are established exports, i.e., where Jamaica's global exports are greater than US\$1 million. In 2015, the UK's global imports in these ten products comprised US\$3.6 billion. A competitiveness analysis of Jamaica with its competitors in the UK market using three competitive indices shows that Jamaica can increase its exports to the UK by US\$403 million. Jamaica's existing exports (average 2012-2015) in these products to the UK is around US\$ 9 million. Total exports of Jamaica to the UK in 2015 amounted to US\$303 million, which can be increased by 33 per cent with the FTA.

Among the identified products, of particular interest are cheese (HS code 40690) of which the UK imports US\$1.2 billion, with US\$5.9 million is imported from other CARIFORUM countries and none from Jamaica. Interestingly, Jamaica exports US\$5.7 million to the rest of the world, suggesting that with competitiveness established for this product line, Jamaica could also export to the UK. Similarly, the UK imports US\$1.7 billion of bread, pastries, cakes and biscuits (HS code 190590) from the rest of the world, of

which nearly US\$20 million is imported from CARIFORUM countries and US\$2.4 million from Jamaica; again suggesting Jamaica could increase supply of this product line and cost competitively export to the UK.

Following similar methodology, new products have been identified for export to the CARIFORUM countries to the UK. CARIFORUM countries together have an access to US\$1.7 billion market in the UK in 12 identified products where they are competitive (Table 8). They are exporting US\$16 million to the UK in these products (average 2012-2015) and can substantially increase their exports. The FTA will further enhance their competitiveness. The identified products include fruits of the genera capsicum/pimento-fresh/chilled (HS code 70960); rum and tafia (HS code 220840); essential oils other than those of citrus fruits (HS code 330129); and mixtures of odoriferous substance & mixtures etc. (HS code 330210). In the case of HS code 70960—fruits of the genera capsicum, the UK imports just over US\$431 million, of which it currently sources US\$596,000 from CARIFORUM countries, while CARIFORUM countries export US\$21 million to the world.

Table 7. Estimated increase in Jamaica's exports to the UK post-FTA

Sr. No.	HS code	Product description	Import value of UK (US\$1,000)	Weak competitors	Potential market size for Jamaica in UK (US\$1,000)	Jamaica's average exports to the UK (US\$1,000)
Established exports	1	30619 Frozen crustaceans (excl. of 0306.11-0306.14); frozen flours/meals/pellets of crustaceans, fit for human consumption	18,897	India, Ireland, China, Vietnam	15,699	
	2	40690 Cheese (excl. of 0406.10-0406.40)	1,203,648	Italy, Germany	230,465	
	3	190531 Sweet biscuits	452,088	France	58,810	360
	4	190590 Bread, pastry, cakes, biscuits & other bakers' wares, whether/ not containing cocoa; communion wafers, empty cachets of a kind suitable for pharmaceutical use, sealing wafers, rice paper & similar products (excl. of 1905.10 - 1905.40)	1,743,225	Belgium, Poland	76,383	2,357
New products for export	5	220840 Rum & tafia	257,422	Spain, France, Italy	11,436	3,209
	6	70990 Vegetables, n.e.s. in 07.01-07.09, fresh/chilled	321	China, Poland	900	
	7	91099 Spices, n.e.s. in Ch. 9	35	Austria, China, Germany, Israel, Italy, Pakistan, Portugal	2,731	127
	8	190120 Mixes & doughs for the preparation of bakers' wares of 19.05	165	Poland, Spain	2,831	155
	9	190410 Prepared foods obt. by the swelling/roasting of cereals/cereal products	232	Canada, Denmark, Switzerland	3,833	5
	10	200599 Vegetables & mixtures of vegetables (excl. of 2005.10-2005.91), prepared/preserved other than by vinegar/acetic acid, not frozen, other than products of heading 20.06	115	Denmark	569	2,822
			3,676,148		403,658	9,035

Source: Author's estimates based on SMART Simulations

Table 8. Estimated exports of CARIFORUM countries to the UK post-FTA

S.No	HS code	Description	CARIFORUM countries' exports to world (US\$1,000)	UK's imports from world (US\$1,000)	UK's imports from CARIFORUM countries (US\$1,000)
1	70960	Fruits of the genera Capsicum/Pimenta, fresh/chilled	21,180	431,203	596
3	91099	Other	570	35,786	152
4	121190	Plants & parts of plants, incl. seeds & fruits, of a kind (excl. of 1211.20 - 1211.40) used primarily in perfumery/pharmacy/for insecticidal/fungicidal/similar purposes, fresh/dried, whether/not cut/crushed/powdered	5,796	75,240	107
5	190120	Mixes & doughs for the preparation of bakers' wares of 19.05	284	177,621	138
6	190531	Sweet biscuits	25,694	474,780	435
7	190590	Bread, pastry, cakes, biscuits & other bakers' wares, whether/not containing cocoa; communion wafers, empty cachets of a kind suitable for pharmaceutical use, sealing wafers, rice paper & similar products (excl. of 1905.10 - 1905.40)	19,902	1,775,926	2,506
8	200599	Other	3,775	118,317	2,959
9	220840	Rum & tafia	109,712	98,751	8,475
10	330129	Essential oils other than those of citrus fruit (excl. of 3301.24 & 3301.25)	1,507	125,850	306
11	330210	Mixtures of odoriferous substance & mixtures (incl. alcoholic solutions) with a basis of one/more of these substance, of a kind used in the food/drink industries	24,530	755,247	224
12	760200	Aluminium waste & scrap	15,538	180,896	149
			151,287	1,160,744	16,047

Source: Author's estimates based on SMART Simulations

6. Post-Brexit trade arrangements with the UK: Transition and its implications for Jamaica and other CARIFORUM countries

Post-Brexit, should CARIFORUM and the UK not conclude a post-Brexit preferential trade agreement or a transitional preferential arrangement for bilateral trade (to maintain existing preferences), Jamaican and UK exporters may face tariffs in each other's markets. The potential for trade diversion in this context is high. UK exports into Jamaica would face MFN tariffs on average of 5 per cent across

the majority of export goods. By value of UK exports to Jamaica, MFN tariffs of up to 23.75 per cent are applied across four major exports in the top ten: namely, motor vehicles, followed by car parts and accessories, nuts and electrical filaments, and combustion piston engines. After Brexit, if no preferential trade agreement is in place, Jamaica would face MFN tariffs on exports to the UK. The highest tariffs faced on

Jamaica's top five exports to the UK range from 12.5 per cent to 40 per cent. The highest tariffs faced by Jamaican exporters into the UK market would be on beverages and spirits (by volume), at around 30 per cent, followed by invert sugar, shelled edible nuts and frozen fruit juice. MFN tariffs on these three product groups are expected to be 40 per cent.

6.1 Transition period

In its white paper, 'The United Kingdom's exit from and new partnership with the European Union' (HM Government, February 2017) the UK has undertaken to ensure that there is no disruption to trade by rolling over the EU regime for trade into its domestic law. This ensures that on Brexit+1 day goods arriving at the UK port continue to receive the same treatment as they did on Brexit-1 day. The white paper notes:

This allows businesses to continue trading in the knowledge that the rules will not change significantly overnight and provides fairness to individuals whose rights and obligations will not be subject to sudden change.

However, while this guarantee is welcome, it should be noted that, as the UK will no longer be a party to these agreements, this transition is unilateral and therefore subject to change according to the UK's own domestic legislative processes. This decreases the level of certainty around this treatment, especially as the government notes that this rollover will occur 'wherever practical and appropriate'. Further, it should also be noted that, as this treatment does not have its basis in an Article XXIV GATT/Article V GATS or Enabling Clause compliant agreement or instrument, this treatment does not have a legal basis in the WTO. It would therefore be important that such a basis be put in place promptly through a successor arrangement, as this is an issue that would almost certainly be raised as the UK seeks to get WTO members to adopt a standalone schedule.

One way in which the UK can support smooth transitioning and be WTO compliant is through a possible CARIFORUM-UK EPA, which could come into force soon after Brexit and which would maintain parity with the existing CF-EU EPA. Undoubtedly much will depend on the negotiations between the UK and the EU, after Article 50 has been triggered and the final deal negotiated between them, as

well as possibly the securing of an MFN Article 9 waiver at the WTO while the finer details are being finalised, as discussed below.

Recent analysis of the Brexit process indicates that both parties (the EU and the UK) would wish to avoid undermining the development pathway of ACP countries and other developing regions/countries. Yet, the difficulties of the negotiation process, much of which is unknown, would suggest pragmatism will dictate both the pace and final decision on transition arrangements. Unfortunately, it may be too early to say whether existing trade arrangements will be part of the negotiation parameters. A maintained zero tariff framework between the remaining bloc and the UK should not greatly impact on Jamaica and its Caribbean region partner countries, as the mix of products typically exported to the UK is not in direct competition with EU27 exporters. It is also notable that CARIFORUM omitted a significant number of mainly agricultural products from its tariff reduction commitments under the region's EPA with the EU, which it would probably wish to maintain. Furthermore, CARIFORUM exports into the EU market, under the EPA, already face no tariffs in their traditional commodities, suggesting that the most likely outcome is that this status quo would be maintained in the UK market post-Brexit.

The question remains whether there is a new impetus for an EPA+ deal with the UK, in the current climate of the UK's withdrawal from the EU? Clearly there are complications, as outlined in this paper; but if one takes into consideration the under performance of the CF-EU EPA, a recalibration of the UK's relationship with CARIFORUM could be a good opportunity. One possibility is an emphasis on mutual recognition agreements (MRAs) for subsectors of identified complementarity such as architecture and accountancy (which would be written into any new agreement and fast-tracked); and a reduction in policy barriers (perhaps through development assistance), particularly with respect to trade in services under any new preferential trade agreement with the UK. A potential 'new force' is the added impetus of UK exporters to find new trade opportunities. It is well recognised that the UK is the gateway to Europe for many ACP exporters – the question remains can this be maintained after the UK's withdrawal from the EU?

7. Possible CARIFORUM-UK Economic Partnership Agreements

Any transitional period approved through the WTO waiver framework will be time limited. Consequently, in the medium to long term a new bilateral trade agreement would need to be negotiated between CARIFORUM and the UK. The agreement would need to make allowance for the MFN clause (Article 19) within the CARIFORUM-EU EPA and consider any new areas of opportunity, such as in services. The MFN clause of the CF-EU EPA states that parties to the agreement will not provide more favourable treatment to a major economy, third party country, than it currently affords signatories to the agreement. The UK is a major trading economy¹⁰ with more than 1 per cent of world trade, and would become a third-party country once it leaves the EU. Clause 2 of the article states that ‘with respect to matters covered by this chapter, the CARIFORUM states or any signatory CARIFORUM state shall accord to the EC party any more favourable treatment applicable as a result of the CARIFORUM states or any signatory CARIFORUM state becoming party to a free trade agreement with any major trading economy after the signature of the agreement’. Consequently, CARIFORUM may not be able to offer more favourable terms to the UK than those which exist under the current EU EPA, as the MFN clause provides for the extension of any more favourable preferences or treatment granted to subsequent FTA parties other than the EU to the member states of the EU. The MFN clause within the EPAs¹¹ is invaluable to the EU, as it provides for preferential access to the ACP states in perpetuity and in doing so limits the ability of such states to enter into similar arrangements with third-party countries. Clearly, ACP countries, CARIFORUM states included, could come under pressure to provide similar access to their other trading partners, such as the USA and Canada, should they open their markets via an FTA to the UK and enter into further discussions with the EU (due to the MFN clause).

A possible alternative to an FTA could be a preferential trading agreement (PTA) or EPA+ which focuses on particular aspects of value to

both CARIFORUM states and the UK, while not being in possible breach of Article 19 of the CF-EU EPA. It could be argued that the MFN clause in the EPA only covers FTAs. An FTA is different in scope and coverage to a PTA, because it is broader by definition and covers substantially all trade. It is not clear whether this option would be acceptable to all members of the CARIFORUM group of countries, since most countries would probably want their trade agreements to provide for access for trade in services and to cover other areas such as investments, which may be excluded from a PTA.

It is noteworthy that the MFN clause in Article 19 of the CARIFORUM EPA does not require the CARIFORUM countries to automatically extend their favourable preferences to the EU. Para 5 of the EPA states that:

‘Where any Signatory CARIFORUM State becomes party to a free trade agreement with a third party referred to in paragraph 2 and such a free trade agreement provides for more favourable treatment to such third party than that granted by the Signatory CARIFORUM State to the EC Party pursuant to this Agreement, the Parties shall enter into consultations. The Parties may decide whether the concerned Signatory CARIFORUM State may deny the more favourable treatment contained in the free trade agreement to the EC Party. The Joint CARIFORUM-EC Council may adopt any necessary measures to adjust the provisions of this Agreement’.

This implies that the parties are only required to enter into consultations, not necessarily an agreement. During a consultative phase, CARIFORUM states have a legal basis to argue for the non-extension of MFN to the EU on two bases:

- a. With the exclusion of the UK from the market access offer of the EU post-BREXIT, the preferences granted to CARIFORUM under the EPA has been significantly diminished or reduced, thus CARIFORUM states would have less way to negotiate better terms with another trading partner.

Box 3. Lessons from the West Africa EPA

The West Africa EPA contains an MFN clause, in Article 16. The MFN clause applies only to tariffs, but it is triggered by all preferential agreements, including agreements under the Enabling Clause. It states:

'The West Africa Party shall grant the European Union Party any more favourable tariff than it grants after the signing of this Agreement to a trade partner other than the countries of Africa and the ACP States having both a share of world trade in excess of 1.5 per cent and an industrialisation rate, measured as the ratio of manufacturing value added to GDP, in excess of 10 per cent in the year preceding the entry into force of the preferential agreement referred to in this paragraph. If the preferential agreement is signed with a group of countries acting individually, collectively or through a free trade agreement, this threshold relating to the share of world trade shall be 2 per cent.'

The West African EPA MFN clause excludes preferences granted to other African countries or any ACP states and a major trading economy. A major trading economy is defined as one with more than 1.5 per cent of world trade, as against 1 per cent for the CARIFORUM EPA and 2 per cent for a group of countries as against 1.5 per cent for the CARIFORUM states.

The scope of the MFN Clause is broader in the CARIFORUM EPA, which not only covers 'tariff treatment' like the ECOWAS EPA but all matters covered in the Chapter in which the CARIFORUM EPA's MFN Clause is located, which includes the definition of customs duty, fees and charges, the standstill clause, the clause on free movement of goods, the clause on elimination of export taxes, 'Modification of tariff commitments', 'Special provisions on administrative cooperation', and 'Cooperation in order to strengthen tax administration and improve the collection of tax revenues'.

The MFN Clause of the CARIFORUM EPA applies to 'free trade agreements', a different wording than the 'preferential agreements' in the West Africa EPA. While it does not explicitly define 'free trade agreements', it could be inferred that these are meant to be agreements that substantially liberalise all trade in accordance with Article XXIV GATT.

- b. Further, subsequent to the initialling of the CARIFORUM EPA, the EU went on to negotiate EPAs with other ACP countries, providing for better terms than afforded to the CARIFORUM, as exemplified above, and these provisions ought to have been extended to CARIFORUM states.
- Should CARIFORUM states negotiate a new deal with the UK, an EPA+ package, could potentially afford enhanced access through a concentration on reducing barriers to services trade, incorporating MRAs from the outset as an integral part of the new trade agreement. Article 85 of the CARIFORUM-EU EPA allows for the inclusion of mutual recognition of services provided by citizens of each partner country. More specifically, Article 85 provides first, that nothing in the agreement prevents the EC party and CARIFORUM states from requiring that natural persons must possess the necessary qualifications and or professional experience specified in the territory where the service is supplied, on a sector-specific basis. Article 85, under clause 2, further specifies that both parties shall encourage the relevant professional bodies to jointly develop and provide recommendations on mutual recognition to the CARIFORUM-EC Trade and Development Committee, with particular regard for the authorisation, licensing, operation and certification of investors and service suppliers with respect to the professional services sector. As outlined in the detailed text of Article 85, the parties to the agreement are encouraged to urge the relevant professional bodies in their territories to commence negotiations within three years of the EPA signing in order to provide recommendations on mutual recognitions for the following main disciplines: namely, accounting, architecture, engineering and tourism. To date, according to the EPA Secretariat, the only professional services subsector where discussions have started is that of architecture; however, this may be as a consequence of the pace of MRAs at an intra-regional level. The fact remains after more than five years after bringing the EPA into operationalisation, each territory has so far failed to recognise the skills, qualifications and licenses of professionals from these identified disciplines, an essential ingredient for movement of skilled persons to occur.

8. Why the UK needs CARIFORUM: Economic implications

Post-Brexit, the UK will need to prioritise its negotiations with possible trading partners in the world. While the UK government has declared some of its priorities in terms of bilateral FTAs with large developed countries and developing countries, the UK may gain substantially in terms of increased bilateral trade with CARIFORUM. Depending on the UK's negotiated access to the EU single market, the UK will benefit from diversifying its exports, both in terms of products as well as markets, and reducing its dependence on the EU.

A CARIFORUM-UK possible EPA, if negotiated, would provide the UK with an opportunity to diversify its markets in sectors that could be mutually beneficial. While there appeared to be sensitivities with respect to 28 EU countries negotiations with the UK would lead to identification of specific products that need to be on the sensitive list, allowing for greater tariff liberalisation in the other products.

The UK has high export potential in sectors such as motor cars and vehicles (mainly of cylinder capacity exceeding 3,000 cc; 2,500 cc; and 1,500 cc), spirits (mainly whiskies, rum and wines), food preparations (HS code 21690), medicaments (mainly HS code 300490 and penicillin HS code 300410), transmission apparatus (mainly HS code 852550), other furniture parts (mainly wooden furniture), cane or beet sugar and chemically pure sucrose in solid form (mainly HS code 170199 – others), breads and pastries (mainly HS code 190531—sweet biscuits); and bottles and jars for packaging (mainly 701090 – others). Simulation results show that following a possible EPA, the total potential exports of the UK to CARIFORUM could increase by 23 per cent (if bilateral tariffs were brought down to zero in these products).¹² However, lowering custom tariffs in some of these products, especially motor vehicles, may have adverse implications for tariff revenue earned by CARIFORUM countries and so may require a longer phasing out period.

Apart from the market diversification, agricultural trade has remained highly protective and subsidised in the EU, with the UK being a beneficiary of EU agricultural subsidies. Under the EU's Common Agricultural Policy (CAP), in 2015, farmers received almost €3.1 billion

in direct payments, according to the National Farmers Union (NFU n.d). Farmers have also access to the €5.2 billion in funding, which has been allocated to the UK for rural development projects over the period 2014–2020, including €2.3 billion transferred from the Basic Payment Scheme (BPS) to UK rural development programmes (Downing, 2016). Some 55 per cent of UK total income from farming comes from CAP support. Nonetheless, the UK is a net importer of food and food products from the EU. It exports around US\$13 billion worth of food products, while importing US\$36 billion worth of vegetables and food products.¹³ Post-Brexit, EU subsidies may no longer be available for the UK, and the extent to which the UK will be able to support its farmers on subsidies is debatable. The UK may find it necessary to reduce tariffs in order to import cheaper food products. CARIFORUM could be a possible partner in this respect. For example, Jamaica's export basket – as well as that of many other countries in CARIFORUM – is still heavily dominated by agricultural and agro-processed manufacturing. It may therefore be easier for Jamaican exporters and others from the region to comply with UK standards rather than the overly regulated EU standards.

CARIFORUM countries also offer a huge potential for investment, especially in infrastructure and services, as discussed below.

8.1 Jamaica-UK trade in services

Jamaica's trade in services with the UK have fallen in recent years, from a high of US\$98 million 2011 to nearly half that value, US\$51 million, in 2014. Conversely, services imports from the UK to Jamaica have slightly increased over the same period, from US\$287 million in 2011 to US\$300 million by 2014 (see Table 9). While trade in services may be of significant export value for Jamaica, such trade is subject to a host of non-tariff barriers (particularly in professional services trade) – for example, requirements to fulfil rigorous professional standards criteria and the commitment to mutual recognition agreements, which impact on the movement of services professionals. These challenges may inhibit the growth of this

Table 9. UK's exports and imports of services from Jamaica (2005– 2014)

	UK imports (US\$, millions)	UK exports (US\$, millions)
2005	372	55
2006	184	64
2007	293	52
2008	314	51
2009	417	70
2010	603	54
2011	287	98
2012	348	58
2013	321	58
2014	300	51

Source: The OECD Statistics on International Trade in Services database

export sector. A new EPA (possibly an EPA+) should be able to address these issues and identify services where a mutual recognition agreement (MRA) can be included within the EPA. This analysis recognises that Jamaica was able to achieve commitments on Mode 4 from the UK for the temporary labour movement of professionals, creatives industry specialists etc., within the CF-EU EPA. As a precursor to any new negotiations with the UK on an EPA or EPA+ regime, CARIFORUM member states should undertake a comprehensive analysis of the regulatory environment for key sectors (of identified competitiveness, such as creative industries), particularly as it impacts upon the cross-border provision of services (Mode 1) and the temporary presence of natural persons for business purposes (Mode 4).

Of critical importance in any services agreement for the Caribbean is the delivery of Mode 4, which supports the movement of skilled and unskilled labour. The ability of personnel to move seamlessly in the delivery of trade in services is crucial, yet without addressing immigration issues, such as business visa access, the effective utilisation of mode 4 is undermined. Britain's financial and professional services industry (investment managers, bankers, accountants, actuaries, corporate lawyers etc.) contributes significantly to the country's GDP (approximately 12 per cent) indicating a sizeable competitive market. Chaitoo, R (2006), Jamaica's ability to benefit from trade in services, post-Brexit, possibly under a new CARIFORUM-UK EPA could increase the country's services export

volume in the medium term, particularly if a new EPA includes establishing MRAs for professional services from the outset and addresses the issue of access to visas for qualified personnel. Yet, under the existing CARIFORUM-EU EPA, which has a services component, Caribbean countries have struggled to take full advantage of the provisions within the agreement. Policy barriers such as regulatory conditions, including recognition of standards and competencies of professionals, have undermined Caribbean services exports to the EU.

UK commitment under the CF-EU EPA with respect to trade in services is governed by the legal text, located in Annex IV of the agreement. Categories of service providers in the EPA are key personnel (business visitors and transfers of corporate staff), graduate trainees, contractual Services suppliers, business service sellers, independent professionals and short term business visitors. Where an EU country has made a commitment in the legal text, for example, in Mode 3 (commercial presence) there is an automatic commitment with regards to temporary entry to graduate trainees and key personnel. The agreement does not provide commitments with regards to visas, professional qualifications, technical standards and licensing requirements; nor guidance on the need to comply with employment law or social security conditions etc. EU countries reserve their regulatory rights over the services sector. As an illustration under the Contractual Services suppliers (CSS) category, CARIFORUM nationals employed by a CARIFORUM commercial entity, which does not have a commercial presence in an EU state may provide services for a period not exceeding twelve months. There are a number of caveats which determine entry under the CSS category. The UK does not impose restrictions on the conditions of entry of independent professionals or an employee of a CARIFORUM company, outside of those stated within the legal text, horizontal and specific commitments. Similarly, no restrictions are imposed by 13 other EU countries, including France and Denmark, the remaining 14 EU states impose a range of economic needs tests.

8.2 Implications of UK – Trade in services agreement (TISA) for Jamaica

The Trade in Services Agreement (TISA) enables those countries that desire to negotiate and make commitments in their services

trade, beyond the WTO General Agreement on Trade in Services (GATS) commitments. A concluded TISA may not greatly augment Jamaica's competitiveness in trade in services, as the challenges around the delivery of Mode 4 are likely to remain for CARIFORUM countries, particularly if no successor trading arrangement is secured with the UK. Also of note a number of countries participating in the plurilateral TISA negotiations would likely

exchange concessions between themselves through bilateral PTAs. Should the UK increasingly sign to such bilateral PTAs, Jamaica's competitiveness in trade in services for the UK market could further erode. Strategically, support for the delivery of Jamaica's services trade through Mode 2 could be another potential avenue through which the country's trade could be increased.

9. UK-Jamaica FDI flows

Jamaica's investment portfolio in 2006 was valued at approximately US\$3.5 billion, ranking the country as the leading investment destination in the Caribbean. Over the same period, Jamaica achieved a 17th ranking placement for foreign investment according to the World Investment Report (UNCTAD 2016). Jamaica has 17 bilateral investment treaties (BITs), of which 11 are in force; the oldest BIT was signed with the UK in 1987. In 2015, total foreign direct investment (FDI) flows to Jamaica amounted to US\$794.5 million. (BIS/DFID, 2011)

In 2014, Jamaica received US\$595 million in FDI inflows, which is over three times less

than the foreign exchange inflows the country received from remittances. In 2015, the FDI inflow figure went up to US\$794 million, which is the second largest inflow to a small island developing state (SIDS) (UNCTAD 2016)

Three sectors that provide the most promising FDI opportunities for UK businesses given the UK's existing strengths and the needs of the Jamaica and the CARIFORUM countries going forward are:

- technology, media and telecommunications;
- infrastructure services; and
- business and financial services.

10. Development support

The CARIFORUM approach to development co-operation with the EU is unique among the other ACP regions. ACP states' focus is traditionally on Aid for Trade (AfT) strategies to improve countries' capacities to trade and forms part of official development assistance (ODA). CARIFORUM considers its approach to be more holistic, in that development co-operation should not only be a standalone chapter of the EPA, but should also feature in each substantive chapter of the agreement. AfT is categorised according to six areas of: trade policy and regulation; trade development; trade-related infrastructure; building productive capacity; trade-related adjustment; and other related assistance. The range of assistance under AfT can include support for energy or telecoms

infrastructure, transport and logistics, and providing support to manage balance of payment shortfalls arising as a consequence of a deteriorating global trading environment. The intention of the CARIFORUM Joint Declaration on Development Cooperation, which was signed at the same time as the EPA, was that a newly formulated CARIFORUM Development Fund could channel EPA-specific funding, covering areas such as those indicated above, as well as support general EPA implementation. However, to date the existing mechanisms for development assistance prevails. European Commission (April 2012)

The EU and its member states remain the world's largest AfT donor globally. In 2013, a total of €11.7bn of AfT resources were made

available, with Africa and least-developed countries (particularly high-population, low-income countries) receiving the largest portion of support. The UK's increasing focus on support to fragile states may likely disadvantage CARIFORUM countries, which will not have access to these ear-marked funds. The European Development Fund (EDF) is of crucial importance to all developing regions, due to the size and breadth of these funds. The EDF is aligned to the Cotonou Partnership Agreement (CPA) due to end in 2020. The UK's contribution to the European Development Fund (EDF 10 and 11) was 14.82 per cent (accurate as of October 2014), the third largest contributor to the EDF after Germany and France. D'Alfonso, A. (November 2014). The EU's new differentiation policy excludes upper-middle to high-income countries from benefitting from the EDF. This policy is likely to be introduced through an amendment to the 11th EDF. The differentiation policy disproportionately affects CARIFORUM

states within the ACP grouping. This problem is further exacerbated by the predicted decline in real terms of financial aid over the allocation period (2014–20).

Post-Brexit, it is not clear what will happen to the UK's contribution to the fund; however, there is a possibility that EU AfT resources will contract, given the absence of the UK contribution, which will have implications for resources allocated in the future. Meanwhile, the UK's bilateral ODA (post-Brexit) is not expected to increase beyond the 0.7 per cent of gross national income (GNI) aid target to which it is committed, having reached that target for the first time in 2013. In 2015, the UK spent £12.24 billion in aid (ODA), an estimated 0.71 per cent of GNI (Lunn, J, and L Booth 2016). Projected UK ODA to the region for the period 2015–20 has been budgeted at more than £400 million under the Department for International Development's (DFID) regional programme.

11. Conclusions and a way forward

Jamaica (as signatory to CARIFORUM) has been party to the EU-EPA with the region since 2008. Brexit being imminent by March 2019 (should Article 50 be triggered in March 2017) will potentially result in the eventual fragmentation of the Caribbean's preferential access to the EU, and will summarily destroy the existing preferential access that the region (including Jamaica) has to the UK market. Once the UK has officially left the EU, the CARIFORUM-EU EPA will no longer apply, resulting in Caribbean countries no longer having access to the UK market on duty-free, quota-free terms for many of their key sectors, but will instead resort to MFN status under WTO rules.

This paper anticipates that the Caribbean region (including Dominican Republic, i.e., CARIFORUM) will have to renegotiate an EPA, or ambitiously an EPA+, with the UK. This may provide an opportunity for Jamaica to recalibrate its trading relationship with the UK, with particular reference to those sectors or issues that have proved challenging to negotiate with the EU28 at the time of the CARIFORUM-EU EPA (for example, the promise of capacity building assistance, EPA implementation

resources, a professional services standards/qualifications framework, Rules of Origin, technical, SPS barriers etc.). Notwithstanding the challenge of addressing Article 19 of the CARIFORUM-EU EPA, which restricts CARIFORUM states from affording any third-party country more favourable treatment than EU states, an EPA with the UK may provide an opportunity for the region to address those issues that have undermined the effective implementation of the EPA, which is well recognised as being problematic. An EPA+ with a focus on addressing non-market barriers to entry, without offering the UK more access, should not give rise to invoking Article 19.

Improved market access elements for consideration by the CARIFORUM region as it pursues negotiations with the UK could include trade in services, particularly Mode 4 for key subsectors (likely professional services such as engineering, architecture and accounting, and entertainment services). Mutual recognition agreements (MRAs) are critical to facilitate CARIFORUM professionals' export of services into the UK (and indeed the EU) market. However, it should be noted that there are still

market access challenges with goods supply as well. A UK-CARIFORUM renegotiation process may present an opportunity to reconsider those non-tariff barriers, typically technical barriers to trade. EPA implementation has been particularly problematic for CARIFORUM states, as the cost of implementation – in terms of the necessary regulatory, legislative and policy changes – is significant and necessary if the EPA is to become operational. Of particular relevance is the services dimension of the CARIFORUM-EU EPA, in which the EU has liberalised 90 per cent of its services sector to CARIFORUM; in this context, it should be noted the UK as a major services economy will no longer be within the EU.

CARIFORUM member states will also need to be cognisant of the MFN clause within the EPA, bearing in mind it has wider implications for other FTAs such as with the Canadians (CARIBCAN) or the Americans (CBERA). In time, there is the potential for the Caribbean region to lose negotiating space (and government budgetary resources), as these elements are brought into trading arrangements with these major trading partners. For example, losing tariffs on US imports would present Jamaica with a considerable challenge, given its reliance on US imports and the taxation thereon.

In order to avoid the potential harmful effect to CARIFORUM economies of any withdrawal of duty-free, quota-free access to the UK goods

market under the CF-EU EPA, once the UK leaves the EU, a transitional agreement would need to be put in place to protect developing economies. Without such a transitional agreement between the UK and CARIFORUM, Jamaica and her neighbours would be forced to trade with the UK under WTO MFN terms, which would be extremely harmful to their economies.

The results of the Brexit referendum have created an unprecedented challenge for the British government, the EU27 and her trading partners. Undoubtedly, significant challenges lie ahead for all parties as new relationships are calibrated. While in the short-to-medium term the UK economy will undergo considerable changes, including to macroeconomic fundamentals (further exchange rate devaluations, higher inflation), new opportunities will also present themselves. Commonwealth partner countries like Jamaica and other CARIFORUM countries may have an opportunity to forge a new EPA or EPA+ with the UK, as well as to revisit arrangements under the CARIFORUM-EU EPA in a post-Brexit environment with the EU27. Pragmatically, it would not be unreasonable to present the case that no partner country envisaged an EPA with the EU that excluded the UK when it was concluded less than ten years ago. However, one must consider that the appetite of the EU27 to agree a renegotiation process with the Caribbean region will be seriously dampened by a likely turbulent period in the union's history.

Notes

- 1 The authors would like to thank the Jamaica Ministry of Foreign Affairs and Foreign Trade and the CARIFORUM and CARICOM Secretariats for their comments and suggestions. They are also grateful to Ms Opeyemi Abebe and Mr Kirk Haywood for their assistance in the legal analysis.
- 2 CARIFORUM is a regional bloc that comprises Caribbean Community (CARICOM) countries plus Dominican Republic. CARICOM is a socioeconomic political union comprising Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti (to be ratified), Jamaica, Saint Lucia, Saint Vincent and the Grenadines, Saint Kitts and Nevis, Suriname, and Trinidad and Tobago.
- 3 This is an abbreviation popularised in the run up to the referendum, which described the potential for a 'British Exit' from the EU.
- 4 Europeaid, September 2014.
- 5 Europeaid, September 2014.
- 6 Under the Everything but Arms (EBA) arrangement.
- 7 COMTRADE, World Integrated Solution, World Bank, 2016.
- 8 Considerations with respect to broader ACP-EU relations may have an impact on the decision to secure any changes in the CARIFORUM-EU EPA prior to negotiations with the UK. Realistically, the geopolitical and economic strength of the EU may dictate this, particularly where development assistance for the CF-EU EPA is considered. At this early stage of mapping out the parameters of the Brexit negotiations, it is too early to indicate the likelihood of this scenario.
- 9 Methodology utilised identical across the Commonwealth – Opportunities from Brexit Briefing Papers. Methodology first espoused in the 'India – Opportunities from Brexit' paper October 2015.
- 10 Para 4 defines a 'major trading economy' as 'any developed country, or any country or territory accounting for a share of world merchandise exports above 1 per cent in the year before the entry into force of the free trade agreement referred to in paragraph 2, or any

group of countries acting individually, collectively or through an free trade agreement accounting collectively for a share of world merchandise exports above one and a half (1.5) per cent in the year before entry into force of the free trade agreement referred to in paragraph 2.

- 11 However, note there are differences with regards to how the MFN clause is defined across the different

EPAs. Note the comparison with the ECOWAS EPA in Box 1: 'Lessons from the West Africa EPA?'

- 12 Based on WITS SMART simulation model. COMTRADE, World Integrated Trade Solutions, World Bank
- 13 Source: COMTRADE, World Integrated Trade Solutions, World Bank

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