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Harnessing the Caribbean's External Trade Partnerships: Opportunities and Challenges

Edwin Laurent

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By Edwin Laurent, Director of the Ramphal Institute, and Senior Adviser to the UNEP.

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For more information contact the Series Editor: Dr Mohammad A Razzaque, m.razzaque@commonwealth.int

Abstract

In a dynamic, rapidly liberalising and fiercely competitive international environment, Caribbean Community (CARICOM) countries see the pooling of their national efforts through the Caribbean Single Market and Economy as a central plank for overcoming their numerous constraints and advancing their economic growth and sustainable development. However, to succeed in the often challenging and fiercely competitive international setting, strategic and supportive external partnerships are vital. The region has therefore been exploring new relationships while it seeks to strengthen and deepen those that have existed for some time, to ensure that they make the intended contribution to helping the region achieve its goals.

Caribbean countries are pursuing their trade and investment relations with their established partners while also expanding economic relations with hemispheric partners and other emerging global players. The shifting global trade landscape, however, has implications for the region and for its trade and economic policy.

This discussion paper undertakes a preliminary exploration of some of the initiatives and relationships, both new and long-standing, that have an impact on the region's trade and economic performance. These include the European Union and its economic partnership agreement with the Caribbean Forum, the USA (Caribbean Basin Initiative) and Canada (CARICOM–Canada free trade area negotiations). It also looks at the shifting global trade landscape, including the emergence of mega regional trade areas such as the proposed Transatlantic Trade and Investment Partnership Agreement.

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Abbreviations and acronyms

ACP	African, Caribbean and Pacific
CARICOM	Caribbean Community
CARIFORUM	Caribbean Forum
CBERA	Caribbean Basin Economic Recovery Act
CBI	Caribbean Basin Initiative
CSME	Caribbean Single Market and Economy
CTO	Caribbean Tourism Organization
EPA	economic partnership agreement
EU	European Union
FDI	foreign direct investment
FTA	free trade area
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GATT	General Agreement on Tariffs and Trade
ITC	International Trade Centre
MFA	Multifibre Arrangement
MFN	most favoured nation
NES	not elsewhere specified
RTAs	regional trade arrangements
SPS	Sanitary and phyto-sanitary standards
TPP	Trans-Pacific Partnership
TRIPS	Agreement on Trade-Related Aspects of Intellectual Property Rights
TTIP	Trans-Atlantic Trade and Investment Partnership Agreement
USVI	US Virgin Islands
WTO	World Trade Organization

1. Introduction

For centuries, Caribbean countries have been among the most open and trade dependent in the world. This, combined with some of their peculiar features and characteristics, magnify the importance and impact of their engagement with the outside world. For them the terms on which they trade in goods and services, and the investment, remittances and development aid from abroad, are critical to their ability to advance their economic growth and to be able to achieve their development goals.

Given their small size they have, not surprisingly, always relied on partnership in their engagement with the outside world. The reasoning is that this helps them achieve their objectives within their desired timeframe: something that on their own they might not have been able to manage. In part because of small size and other geographical, commercial and historical circumstances, the range of their partners has been narrow. Recent years, though, have seen the emergence of new economic powers, accelerating globalisation and trade liberalisation, which undermine the value of traditional trade preferences so that they on their own can no longer ensure remunerative market access. The region has therefore sought to adapt and looks to forge new partnerships that are appropriate to the current landscape.

This paper will focus on some of the region's major partnership frameworks. It will address the economic partnership agreement (EPA) between the European Union (EU) and the Caribbean Forum (CARIFORUM), the USA's

Caribbean Basin Initiative and the idea of a free trade area (FTA) between the Caribbean Community (CARICOM) and Canada. It will consider how countries of the region can adapt to changing global trade realities, in which the commercial presence of China is often becoming dominant and increasingly visible in the region. It will also assess the implications for the Caribbean of the mega regional trade arrangements (RTAs) such as the Trans-Pacific Partnership (TPP), which was signed by 12 Pacific Rim countries, and the Trans-Atlantic Trade and Investment Partnership Agreement (TTIP), which is being negotiated between the USA and the EU.

It will be important for Caribbean policymakers to fully understand, from the region's own standpoint, the opportunities and challenges of these arrangements, the extent to which they can actually contribute to helping advance and achieve national economic goals and, most importantly, how this might be achieved. This paper aims to make a preliminary contribution to that understanding.

Despite the need for having viable and beneficial external partnerships, the Caribbean Single Market and Economy (CSME) is central to the region's collective strategy for pursuing its development goals. While the remit of this study is the extra-regional partnerships, these have to be considered in the context of the CSME. Before reviewing each of the partnerships, the paper will first consider the economic context in which Caribbean countries operate.

2. The Context

Caribbean countries operate on the premise that external support can help them both overcome several of the constraints that they face and capitalise on opportunities as they pursue their national and regional goals. Hence the need for engagement with external partners that will provide support or help them harness opportunities and overcoming obstacles.

This section looks at the key relevant characteristics of the countries of the region that affect their economic prospects and the basis on which they relate to the rest of the world.

An immediately evident feature is that Caribbean countries are small and scattered. Their geographical and economic size means that individually their available resources are

limited in both range and volume, which therefore limits output potential and internal market size. Considering that international competitiveness would in general require being able to benefit from economies of scale, the individual countries have to make the most of their very limited national resources and have no option but to specialise. Invariably this can only be in very few product areas. However, the high output volumes have to be exported before they flood the local market. The result is that, like many other very small states, CARICOM countries with their forced specialisation and consequently limited lines of production cannot satisfy, from domestic sources, the broad spectrum of demand for consumer goods and production inputs. They have to rely on imports.

But what of countries pooling their combined productive resources and efforts to overcome this challenge due essentially to the smallness of the individual states? This is of course a goal of the CSME, but, given how scattered the countries are and the poor transport links between them, pooling can become costly and sometimes not feasible at all.

These countries export a considerable portion of what they produce and import much of what they consume. Consequently, their overriding trade policy objective is to ensure market access for their goods and services on the most beneficial terms. The ability to maintain high tariffs on imports can be seen as having a direct trade and production significance only in those cases where the added protection provides an advantage to the few domestic products that are in direct or indirect competition with imports. For the countries themselves, tariffs on those non-competing items are often revenue raising rather than domestic protection measures.

It should be pointed out of course that, when CARICOM extends preferences to third countries under FTAs, its preferential partners that supply it can benefit from the tariff advantage over most favoured nation (MFN)¹ suppliers. Even when tariffs do not

have a direct impact on trade for CARICOM countries, the relative access provided to outside countries can have consequences on trade. To illustrate, Jamaica applies import duty on motor cars, but this does not increase protection for its domestic manufacturing sector, since it does not produce motor cars anyway. However, the duty does provide a marketing advantage to, say, Germany, the UK and France, which are exempted under the EPA, over competitors such as Japan, South Korea or the USA, which are faced with the MFN tariff.

Investment: CARICOM economies have not been generating the levels of domestic investment that they require, and, with the exception of Trinidad and Tobago, they have in general not been able to attract sufficient foreign direct investment (FDI).

Services: Another distinctive feature of the Caribbean is the importance of exporting services. The services sector has emerged as an important focus, with attention being paid to such areas as transport services, the creative industries and improving the capacity of service suppliers.

The region's services sector and exports are dominated by tourism. Consequently, any comprehensive appreciation of their economies, prospects and policy options must take account of the role, contribution and opportunities provided by this sector.

The Caribbean is one of the most tourism-intensive areas of the world and, according to the Caribbean Tourism Organization's (CTO's) estimates, it has 2.4 per cent of the global market. International tourist arrivals to the Caribbean grew by an estimated 7.0 per cent in 2015 to reach an approximate total of 28.7 million. The bulk of the arrivals are from the United States, at 46.4 per cent, with 17.8 per cent from Canada, 18.6 per cent from Europe and others accounting for 17.1 per cent. Just over a quarter of these tourist arrivals are to Commonwealth Caribbean countries and for them the UK is the most important source in Europe.

1 The MFN provision is a foundation of the World Trade Organization (WTO) trading system and is enshrined in Article 1 of the General Agreement on Tariffs and Trade (GATT), Article II of the General Agreement on Trade in Services (GATS) and Article 4 of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). It requires a participating country to impose the same tariffs and other treatment on its trade with all members of the WTO. Members that also belong to a regional trade arrangement (RTA) can provide certain better conditions to each other on a reciprocal basis.

Table 1. Commonwealth Caribbean Tourist arrivals January to December 2014

Country	Total arrivals	Stayover	Cruise	Country	Total arrivals	Stayover	Cruise
Total	16,785,120	6,404,907	10380213	Grenada	368,661	133,521	235,140
Anguilla	70,927	70,927	–	Guyana	205,824	205,824	–
Antigua and Barbuda	771,658	249,316	522,342	Jamaica	3,503,978	2,080,181	1,423,797
Bahamas	6,226,561	1,421,860	4,804,701	Montserrat	8,804	8,804	–
Barbados	1,077,496	519,598	557,898	Saint Lucia	979,610	338,158	641,452
Belize	1,289,348	321,217	968,131	St Kitts and Nevis	538,836	104,730	434,106
British Virgin Islands	764,132	386,049	378,083	St Vincent and the Grenadines	155,883	70,713	85,170
Dominica	368,045	81,472	286,573	Trinidad and Tobago	455,357	412,537	42,820

Source: Compiled from Caribbean Tourism Organisation data 19 June 2015.

Although gross earnings from tourism are substantial, the region has been seeking to diversify its offering, in response to increasing interest among tourists in moving beyond the traditional sun, sea and sand concept. The goal is stronger linkages and better integration with the rest of the economy, society and the environment.

The tourism sector, with its hotels and restaurants, has the potential to offer a lucrative, valuable and readily accessible market for fresh and processed domestic agricultural and fishery production. That market is, however, generally quite exacting in terms of the specific food items, delivery scheduling, quality standards, volumes, reliability, consistency and packaging (including sizes). In addition, hotels, which are generally in a strong bargaining position vis-à-vis farmers, fisherfolk and other suppliers, often demand credit or deferred payment terms. Consequently, for domestic agricultural and fishery production to effectively supply the tourism sector, it would need to be appropriately and adequately organised with effective supply and marketing capability.

The potential of tourism to contribute to sustainable development is considerable. In several countries, efforts are being made to

capitalise on this sector as a readily accessible market for domestic agricultural produce. Governments though recognise the need for the industry's fuller integration with the rest of the economy and society and, and its growth in harmony with the environment.

CARICOM's Strategic Plan for 2015 to 2019 identified tourism as a key driver of the region's economic development. It pointed out that the industry provides significant employment opportunities and its linkages add value in other economic sectors such as agriculture, manufacturing and handicraft. It serves as a catalyst for development of other areas of the economy, including ancillary services and infrastructure; especially air and seaports and roads. Caribbean tourism has also facilitated the conservation and preservation of local heritage and culture and improvement of product and service standards (CARICOM [n.d.]).

Caribbean countries are increasingly interested in two innovative approaches to tourism development that can enhance sustainability and provide economic benefits: eco-tourism and festival tourism. The latter adapts and markets cultural and social forms such as Trinidad's carnival, Cropover in Barbados and the Jazz Festival in Saint Lucia.

3. CARIFORUM–EU EPA

The EPA between the CARIFORUM States and the EU was signed in October 2008 and provisionally came into force on 29 December that year. It meets the requirements of General Agreement on Tariffs and Trade (GATT) Article XXIV and replaced the non-reciprocal preferential market access to the EU market under the Cotonou Agreement. Among other things the EPA provides for a reciprocal trade regime in goods and services under which the Caribbean secures free access to the EU, whose exports are granted favourable access to the CARIFORUM market.

The Caribbean entered into the EPA because it expected more secure and expanded bilateral export trade, greater investment inflows and enhanced development cooperation. Given the asymmetries in development between the two regions, the EPA seeks to promote sustainable development in CARIFORUM including by facilitating export development. It provides for development support to strengthen trade-related institutions and enhance the competitiveness of economic operators in CARIFORUM.

A key test, then, of the EPA for CARIFORUM countries is how it has delivered on the aim of developing exports.

Table 2 tracks the changing total value of CARICOM exports to the EU during the last 10 years.

Table 2. Total CARICOM exports to the EU (thousand US\$)

Year	Value of exports
2006	3,387,167
2007	3,056,914
2008	4,533,199
2009	2,480,472
2010	2,041,169
2011	3,785,864
2012	3,010,767
2013	3,725,159
2014	3,056,727
2015	3,489,175

Source: compiled from International Trade Centre (ITC) data.

These aggregated figures of course do not themselves tell the full story of the impact of the EPA on the Caribbean. Once they are disaggregated one will be able to assess how the various products and countries are faring and arrive at more definitive conclusions. However, even on the basis of these preliminary data it is evident that the export expansion expectations are not being realised.

What are the main factors contributing to the overall suboptimal performance?

Inadequate supply capacity and competitiveness: This is the major contributing factor and was fully recognised even at the early stages of the negotiations. Exports of traditional commodities from the Caribbean to Europe, sugar and bananas in particular, have been in overall long-term decline. Certain sectors were able to hold their own. These are principally exports that are based on mining, petrochemicals, and boats and shipping (see Table 3). Their strong performance, though, was insufficient to compensate for declines elsewhere.

Sanitary and phyto-sanitary standards (SPS): Some exporters and officials complain about the extent to which technical barriers to trade, particularly SPS, limit their ability to export to the EU. However, SPS controls on imports of food and agricultural products are generally and legitimately applied on imports to protect human, animal and plant health. A basis for contesting them, though, would be possible if, in the design and/or implementation of the procedures and controls, they were discriminatory.

There is one element that might be seen as inadvertently disadvantaging the region's small farmers' exports. The UK, the main EU destination for CARICOM agro-food exports, has moved to full cost recovery for all SPS inspections. This has served to increase the costs to small farmers of SPS inspection fees in the last three years by over 200 per cent.

Under current EU rules, to avoid regular SPS inspection of agro-food imports, a risk assessment can be undertaken after the particular supplier has established a clean track record over three years and delivered a minimum of 200 consignments. Otherwise all imports face

SPS inspection. In the UK, charges faced by CARICOM's small agro-food suppliers are hundreds of times higher than those faced by their competitors, which are large, established exporters of the same products that have passed the risk assessment. Carrying this extra charge adds considerably to costs and undermines competitiveness.

A solution might be the EU placing a 'ceiling' on SPS fees charged on small consignments of non-traditional agro-food imports from CARIFORUM as part of a diversification support initiative.

The *octroi de mer* in the French territories in the Caribbean: The potentially valuable markets of the French *départements* in the region – Cayenne, Guadeloupe and Martinique – are well appreciated, particularly by the immediately neighbouring CARICOM countries. However, the former impose a levy on imports from CARIFORUM, the *octroi de mer* (dock charges). Well before the EPA, this *de facto* trade-restrictive measure had been a long-standing bone of contention in the region. While this arrangement is permissible under Article 239 of the EPA, it is seen as injurious to CARIFORUM export interests. What is certain is that it is an impediment to expanding exports to those higher-income territories.

The performance of CARICOM export of goods to the EU has been weak because of the long-term decline in traditional commodity export production due to a combination of increasing competition and preference reduction and erosion. New production has not expanded sufficiently to compensate, and regulatory impediments such as the *octroi de mer* and challenging SPS rules and procedures have contributed to the poor performance.

Performance of services in the EPA

The services sector dominates economic activity among CARIFORUM members. Development of service exports is seen by the region as an important element of national diversification and economic expansion strategies.

Tourism is the principal service export, but there is little indication that its performance has been particularly influenced by the EPA. In this context the Caribbean has therefore focused attention on expanding other services.

There were great expectations of the Protocol on Cultural Cooperation, which was intended to facilitate cooperation between cultural professionals from CARIFORUM and the EU and make it easier for artists to travel to and perform in Europe. The protocol has been underutilised, possibly in part because it has not been sufficiently promoted in Europe. Although this has not been systematically ascertained, some regional performers have complained that the protocol has not actually made it easier overall to get business in Europe and to travel there for performances.

An important element in facilitating trade in services is making visa requirements less onerous for businessmen, entertainers and providers of professional services who wish to access the EU on business or for performances. In 2009, Antigua and Barbuda, The Bahamas, Barbados, and St Kitts and Nevis were exempted from requiring a visa for the Schengen area for short stays. Then, in 2014, Dominica, Grenada, Saint Lucia, St Vincent and the Grenadines, and Trinidad and Tobago were accorded the same exemption.

These exemptions are certainly positive and very welcome, providing a definite improvement for travellers to the Schengen zone from the selected CARICOM countries. However, they cannot be seen as an EPA implementation measure, since the restrictions have not been lifted for CARIFORUM as a whole and the UK has retained its stringent visa requirements for nationals of certain Participating States.

There is little doubt that CARICOM has so far not been able to harness EPA instruments sufficiently to expand its production and export of goods and services. This is because of a number of factors including supply-side constraints such as limited productive capacity, lack of competitiveness and marketing capability, and inadequate economic infrastructure. However, the EPA and its development cooperation component can help CARIFORUM overcome these constraints by being more effective in providing adequate and well-targeted resources to help the region build its supply capabilities and meet its Aid for Trade priorities. Among other things, this support can also be used to strengthen links between agriculture and tourism and to develop innovative and economically more beneficial and sustainable forms of trade such as eco-tourism.

In addition, within the EPA framework, the region might seek to have those EU regulatory arrangements addressed that impede and disadvantage CARIFORUM exports of goods and services. These can include the octroi de mer and any application of SPS that de facto discriminates against CARIFORUM exports or unfairly disadvantages them.

For various reasons the approach to assessing and advancing EPA implement has

focused unduly on the legislative and compliance aspects. Of course satisfying liberalisation commitments is necessary and can often be in the economic interests of the region anyway. However, these legal compliance requirements should not detract from other over-riding goals of harnessing EPA provisions to expand exports to the EU and increase competitiveness and productive capacity.

4. Brexit

Although it is not directly an EPA matter, the consequences of the UK leaving the EU following the 23 June 2016 referendum result need to

be addressed. Once the UK has triggered Article 50 of the Lisbon Treaty, there will be a two-year period of withdrawal negotiations. As soon as

Table 3. Composition and value of CARICOM exports to the EU and the UK, 2015 (thousand US\$)

Rank	To the European Union		To the United Kingdom	
	Product	Value	Product	Value
Total	All products	3,489,175	All products	476,185
1	Ships, boats and other floating structures	785,121	Sugars and sugar confectionery	160,386
2	Organic chemicals	616,872	Organic chemicals	106,999
3	Mineral fuels, oils, distillation products, etc.	615,280	Mineral fuels, oils, distillation products, etc.	55,952
4	Inorganic chemicals, precious metal compound, isotopes	239,461	Edible fruit, nuts, peel of citrus fruit, melons	42,728
5	Pearls, precious stones, metals, coins, etc.	194,245	Beverages, spirits and vinegar	29,915
6	Sugars and sugar confectionery	168,065	Fish, crustaceans, molluscs, aquatic invertebrates NES	9,163
7	Iron and steel	124,688	Vegetable, fruit, nut, etc. food preparations	6,672
8	Fertilisers	114,837	Articles of apparel, accessories, knit or crochet	6,256
9	Edible fruit, nuts, peel of citrus fruit, melons	114,590	Plastics and articles thereof	6,023
10	Beverages, spirits and vinegar	95,183	Edible vegetables and certain roots and tubers	5,678
11	Fish, crustaceans, molluscs, aquatic invertebrates NES	74,039	Miscellaneous edible preparations	5,320
12	Cereals	62,911	Optical, photo, technical, medical, etc. apparatus	5,138

Note: NES (not elsewhere specified).

Source: compiled from ITC data.

the UK has formally exited the EU, it will cease to be an automatic party to a number of EU trade agreements, including the EPAs, and will devise its own trade policy.

This will have major and far-reaching trade and other implications. Although overall the bulk of the region's exports are to the rest of the EU, the UK is the principal export destination for the majority of CARICOM Member States. The negotiations that will take place between the EU and the UK on the terms could of course result in some degree of continued cooperation that does not constitute a full break, but one cannot predict what alternative arrangement would be arrived at. Ultimately it might well be that CARICOM, whether on its own or with

partners, would have to negotiate an agreement with the UK in order to safeguard its own trading interests.

In the absence of any alternative trade arrangements being put in place following Brexit that provide the same market access treatment as the CARIFORUM EPA, an immediate impact would be that CARICOM exports to the UK could face MFN conditions. The loss of preferential access would invariably reduce competitiveness and result in substantial decreases of exports to the UK. Overall exports to Europe would drop, since sales to the remaining Member States of the EU would be expected to remain unchanged.

5. The Caribbean Basin Initiative

The creation of the Caribbean Basin Initiative (CBI), which came shortly after the 1983 US military intervention in Grenada, has to be seen very much in the context of the geopolitics of the Cold War era. The CBI granted non-reciprocal preferential trade and tax benefits to Caribbean countries and territories and was enshrined in the Caribbean Basin Economic Recovery Act (CBERA) of 5 August 1983. Among other things, it provided a means of getting around some of the restrictions of the 1974 Multifibre Arrangement (MFA), under which the USA, like other developed countries, had been able to limit imports of textiles and clothing from several of the large and low-cost producers such as China. The CBI provided the Caribbean with the possibility to export clothing to the USA on a preferential basis. Several countries seized the opportunity to invest in operations for assembling pre-cut garments and even some in cutting, sewing and finishing of clothing. Investment also took place in the assembly of electronic and electrical components and products.

As the USA steadily eased its MFA restrictions and then finally the arrangement came to an end in 2005, the valuable, although declining, trading opportunity in garments that the region enjoyed was finally lost.

The USA has amended the CBERA several times, first to make its trade benefits permanent

and then, in the Trade and Development Act of 2000, to reduce or eliminate tariffs and abolish most quantitative restrictions on certain products that were previously not eligible for preferential treatment. This was to have been a transitional arrangement pending the Free Trade Area of the Americas, which, however, failed to materialise.

When Mexico joined NAFTA the Caribbean lost much of its position in various labour intensive exports. Mexico's advantages, of greater proximity via a land border and being part of NAFTA, created major competitive challenges for the Caribbean.

CARICOM exports a variety of products to the USA; the major items are petrochemicals and derivatives, iron and steel and clothing. Exports have decreased every year from US\$11,563 million in 2011 to US\$7,231 million in 2015.

To be able to penetrate the US market further, CARICOM exporters will certainly need to considerably improve their overall supply and competitiveness capacity.

There is one industry, though, in which the region is internationally competitive but is being disadvantaged by US subsidies: the rum industry. The two US territories in the Caribbean, Puerto Rico and the US Virgin Islands (USVI), have been subsidising their rum sector from the proceeds of revenue

Table 4. CARICOM exports to the USA, 2015 (thousand US\$)

Rank	Product	Value
Total	All products	7,230,474
1	Inorganic chemicals, precious metal compound, isotopes	1,553,692
2	Mineral fuels, oils, distillation products, etc.	1,488,330
3	Organic chemicals	725,953
4	Articles of apparel, accessories, knit or crochet	722,071
5	Iron and steel	478,114
6	Commodities not elsewhere specified	376,074
7	Fertilisers	279,471
8	Pearls, precious stones, metals, coins, etc.	257,504
9	Fish, crustaceans, molluscs, aquatic invertebrates NES	203,043
10	Articles of apparel, accessories, not knit or crochet	199,741
11	Ores, slag and ash	169,417
12	Plastics and articles thereof	102,830

Source: compiled from ITC data.

provided by the federal government under its so-called Cover-Over programme (Maguire and Teefy 2010).

The Cover-Over programme provides for the transfer from the US Treasury to the Treasuries of Puerto Rico and the USVI of the proceeds of the excise tax of US\$13.50 per proof-gallon that is levied on rum. This facility was first introduced in 1917 for Puerto Rico and then extended to the USVI in 1954. The CBERA of 1983 reiterates that the excise tax on rum imports from any source is remitted to these two jurisdictions. According to the 2010 report by the Congressional Research Service referred to above, Puerto Rico got US\$371 million in 2008 and the USVI almost US\$100 million.

Although the programme does not stipulate how the transferred revenue is to be spent, both Puerto Rico and the USVI have been using it to provide substantial investment and production support for their rum industries.

The support provided by these US territories to rum producers has a potential impact not just on the competitiveness of Caribbean versus Puerto Rico and USVI rums on the US and international markets, but also on CARICOM countries' relative attractiveness to investors.

Securing new capital and investment, whether from regional or international

sources, is important to the Caribbean rum industry, both for injecting into existing operations and for expanding production, whether in existing or newly constructed distilleries. The US territories have therefore been made relatively more attractive for investment. It is likely that as a result the Caribbean has been less able to compete for available investment and instead has actually lost some of the investment it already had. Most notably, in 2008 Bacardi relocated from the Bahamas to Puerto Rico.

Rum-exporting CARICOM countries are not in a position to match or counter the assistance provided to their competitors with supports/subsidies of their own. Instead the region has been exploring the political/diplomatic route to challenge the subsidies.

On 9 August 2012, CARIFORUM ambassadors in Washington wrote to the US Trade Representative, Ron Kirk, and a few weeks later, on 24 August the then Chairman of CARICOM, Saint Lucia's Prime Minister, Kenny Anthony, wrote to the US President, Barack Obama. Then four months later, at their meeting in December, CARICOM trade ministers called on the US government 'to engage early with Caribbean rum-producing countries with a view to achieving an outcome that will support the continued

competitive access for Caribbean rum to the US market’.

Barbados’s Prime Minister, Freundel Stuart, said to his country’s parliament in December 2014 that ‘We cannot rule out the prospect of this matter reaching the WTO’. However, although officials and industry representatives often assert that the region has a good case, to date no action has been taken. Speaking in 2016 at the launch of the Demerara Distillers Limited 50-year old rum, Guyana’s President, David Granger, conceded that the only option appears to be diplomatic pressure. He said that ‘Litigation is likely to be extremely expensive and

exhausting. The Caribbean Community must use its diplomatic strength to help to resolve this problem that is affecting the health of our economies and the wealth of our countries.’

Finding a solution to the rum subsidy issue would contribute in part to improving Caribbean export performance vis-à-vis the USA. Beyond this, the prospects for significant trade expansion would be very dependent on the region’s ability to greatly increase its productive capacity and competitiveness in order to be able to capitalise on the access provisions of the CBERA and geographical proximity to the USA.

6. CARICOM–Canada FTA negotiations

Canada has historically been an important trading partner for the Caribbean and ever since 1986 CARICOM exports have benefited from the Caribbean–Canada Trade Agreement, known as CaribCan. That non-reciprocal preferential trading arrangement provides duty-free access for specified goods from the Caribbean and aims to promote investment and industrial cooperation. As the region moved towards concluding the EPA with the EU, Canada and CARICOM announced the launch on 1 July 2007 of negotiations for an FTA. Since then, seven rounds of negotiations have been held but differences remain and there have been no further talks since April 2014. No other negotiations are scheduled and there are no indications that talks will resume soon.

CARICOM countries import a very diverse range of products from Canada, which in 2015 amounted to US\$605 million. They include very large proportions of food products, including potatoes, pork, wheat products, processed food and beverage products, peas, beans, salted beef and turkey meat.

CARICOM’s exports to Canada amounted to US\$786 million in 2015, and were dominated by products of mining and petrochemicals. It has long had a positive, although fluctuating, trade balance with Canada, which has been falling sharply in recent years. It fell from US\$604 million in 2014 to US\$181 million

in 2015. It could be that a major contributing factor was collapsing global demand and prices for various minerals and petroleum products.

Table 5. CARICOM exports to Canada, 2015 (thousand US\$)

Rank	Product	Value
Total	All products	605,276
1	Ores, slag and ash	125,518
2	Machinery, nuclear reactors, boilers, etc.	48,419
3	Articles of iron or steel	40,212
4	Meat and edible meat offal	39,827
5	Commodities not elsewhere specified	39,129
6	Fish, crustaceans, molluscs, aquatic invertebrates NES	28,020
7	Mineral fuels, oils, distillation products, etc.	27,014
8	Electrical, electronic equipment	26,168
9	Pharmaceutical products	21,132
10	Paper and paperboard, articles of pulp, paper and board	20,771
11	Vegetable, fruit, nut, etc. food preparations	17,237
12	Edible vegetables and certain roots and tubers	16,136

Source: compiled from ITC data.

7. The Mega RTAs

Just as the Doha Round was losing momentum there was a move towards the negotiation of mega trading blocs among some of the dominant global economic powers. These blocs are considered mega not because of their geographical scope but because of the massive amount of trade that they account for. The first so far to be concluded is the TPP among Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the USA and Vietnam. It was signed in New Zealand on 4 February 2016 by all 12. With major economies such as the USA, Japan and Canada, TPP members' trade in goods is considerable, and was over US\$2 trillion in 2012.

By contrast to the TPP's 12 diverse members, TTIP is to have just two partners, the EU and the USA. TTIP is expected to grant increased market access for both parties. The agreement sets out to liberalise the goods and services sectors to enhance market access for both parties, create a positive climate for investment and further open public procurement markets. It will focus on behind-the-border and other non-tariff barriers as well as the liberalisation of regulations and standards governing services and investment.

Given the combined economic weight of the members of these two agreements, they will have a significant impact on global trade dynamics and regulation and inevitably have far-reaching direct and indirect implications for third countries, including those of the Caribbean. The question for the region is exactly how and to what extent. Detailed economic and other in-depth analysis is required to answer these questions authoritatively. This paper therefore explores the areas where the impact might be felt and where in-depth research is needed.

Trade diversion: Given that a substantial portion of CARICOM exports are destined for countries such as the USA, the EU and Canada, it will be necessary to consider the potential for erosion of preferences that can result in the loss of market share. For CARICOM the scope and intensity of the impact will be influenced by the extent to which exports are competing. Given the export mix of Trinidad and Tobago, it is

likely to be at greater risk than most other Member States. It should also be remembered that both the USA and the EU already have fairly low MFN rates on many of their tariff lines.

Investment diversion: This is an area of possible concern that will need to be explored. With the greater attractiveness of investment in participating members, some potential investors who might otherwise have invested in the region could now consider doing so in a TPP or TTIP partner instead.

Regulation: The streamlining of certain regulations and the convergence of standards are an aim of TTIP. The EU has suggested that this will make it easier for third countries, which will now have to comply with just a single set of standards. In SPS, for instance, this would simplify things for farmers and exporters: similar sets of paperwork and a single set of standards to be complied with. However, harmonisation can be to the higher rather than the less stringent standard, thereby increasing, rather than decreasing, the burden on exporters.

If US and EU standards are harmonised, then ACP producers that export to both the USA and the EU will have to comply with one rather than two sets of product and SPS standards and regulations, thereby simplifying their operations. This should contribute to cost reduction. The alternative to this convergence of regulations would be mutual recognition, or acceptance of each other's standards. It is not clear, though, whether TTIP will go for harmonisation or mutual recognition by the USA and the EU of each other's standards to govern their bilateral trade. There are potential challenges from both for ACP countries:

- a) **Mutual recognition of standards:** Under this scenario, the USA and the EU retain their separate standards but accept imports from the other partner that conform to the exporting country's standards rather than those set domestically, which apply in the market where the goods are being sold. This could discriminate against and disadvantage CARICOM exporters, who could be required to meet a higher product

standard than the competitor from the TTIP partner.

- b) **Regulatory convergence:** This is the alternative scenario in which a common standard is adopted by the two parties to replace their existing rules. It seems logical to expect that the unified standard would be either of the two that exist or based on some combination of elements from both. One might also assume that the new standard would be no less exacting than the lower of the current two.

In such a situation, African, Caribbean and Pacific (ACP) exporters that had been selling to the party operating under the less stringent standard could find that they might well now have to comply with a more exacting standard. The arrangement, though, would not be discriminatory and therefore not against WTO rules, but it could have negative economic consequences.

For example, the US has stricter controls than the EU on certain tropical products such as mangoes. These US measures effectively keep out mangoes from several CARICOM exporters, which currently can get into the EU. Should the EU adopt the stringent US SPS requirements, these CARICOM mango exporters could find that they can no longer access the EU market.

Global governance: Given the dominance in world trade and the combined power of their members, TPP and TTIP will inevitably have a massive impact on the functioning and integrity

of the WTO and of multilateral trade governance structures.

These mega trading blocs will be making rules and setting norms for their own members, but, since they will govern such a substantial portion of global commercial interaction, they will directly affect overall global conditions in the particular realms that they cover. In addition, they will inevitably influence the evolution of existing and new international rule making. Such outcomes could well also undermine the pre-eminent position of the WTO in the multilateral trading system.

This could be important in the trade-related areas of investment, government procurement and competition policy, where TTIP aims to set rules and establish new disciplines, beyond those on the WTO's current agenda. However, many developing countries have long resisted the incorporation of these areas into the ambit of WTO rule making. Nonetheless, should new TPP- and TTIP-inspired norms and disciplines begin to govern major segments of international commercial activity in these areas, pressure would intensify on the WTO to accommodate these new issues and embrace new disciplines. Even if it were to resist, it is to be expected that the norms would in any event influence and guide the framing of multilateral rules.

TPP and TTIP will inevitably have a range of direct and indirect implications for CARICOM countries, so it will be imperative that the region thoroughly analyses what exactly these will be. National and regional policy-making will then need to use that information to adapt their policies and seek to safeguard their interests from damage while benefiting from any opportunities that might arise.

8. Conclusion

It is essential to recognise that the partnership arrangements discussed in this paper are in fact interconnected and need to be looked at as a whole. In addition to considering them and devising appropriate policies to manage them, account needs also to be taken of the overall commercial environment in which CARICOM operates.

It will be particularly important to fully factor in the impact and role of China, which has been increasing its international influence, as well as its commercial presence in the Caribbean. China is investing heavily in the region, in construction and infrastructure, most notably the Kingston trans-shipment port.

Another set of important partners to be included in this holistic review are CARICOM's neighbours in Latin America, with which it needs to remain engaged and strengthen relations. Trade with them is currently very important; total exports to Mercosur in 2015 were US\$3,656 million. These exports, however, were not particularly diversified; mineral fuels, oils, distillation products, etc. accounted for US\$3,071 million.

As a consequence of a variety of factors, including geography, history and political relations, CARICOM has been working with a diverse set of international partners. However, in the current rapidly shifting global trade and economic landscape, it has been seeking, with varying degrees of success, to expand and deepen its economic relations with traditional hemispheric and other partners as well as emerging global players.

The region, nonetheless, faces severe constraints that inhibit its ability to effectively harness and benefit from these relationships.

This is particularly evident in the area of trade. Here, its own severe supply-side constraints of limited productive capacity and diversity, competitiveness, marketing capability and inadequate economic infrastructure mean that it does not have the range and volume of competitive exports to take advantage of the access opportunities made available by these partnerships.

Strategic engagement with partners can certainly help CARICOM countries tackle those supply-side problems. However, until they have been overcome, the region has to be particularly careful that its external partnerships, in both their structure and their implementation, take account of and are supportive of their peculiar economic circumstances and developmental needs. These arrangements need to be sufficiently fair in terms of the actual trading and commercial value of the benefits that the region receives from the partners and of the concessions that it grants to them in exchange.

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