

Whither the FTAA? Next Steps in CARICOM's International Trade Policy Options

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Abstract

CARICOM states have long enjoyed non-reciprocal market access concessions for trade in goods from Canada under CARIBCAN,¹ from the European Union (EU) under the Lomé and Cotonou Agreements and from the United States under the Caribbean Basin Initiative (CBI) and its successor programs.² But for various reasons, the Region has been unable to exploit the preferences in these markets except for a limited range of products. In the case of the EU, preferences may have led to a preoccupation with commodities such as bananas, sugar and rice and little inroads in more sophisticated products. The region is now faced with the imminent prospect of the end of their preferential trade programs. Furthermore, the bilateral FTAs which Caricom negotiated in the 1990s seem to have produced little diversification of CARICOM's trade dependence, except perhaps for Trinidad and Tobago.

CARICOM's approach in the WTO and other trade forums has been largely defensive – to maintain their preferential access in their traditional markets for as long as possible and to find mechanisms to deal with the loss of tariff revenue that will accrue from trade liberalization. Given the limitations of their small size, CARICOM have also sought various concessions such as longer implementation periods, exclusion of sensitive products from liberalization commitments and asymmetrical tariff reduction commitments compared to larger, more developed trading partners. In terms of services, CARICOM require similar asymmetrical liberalization approaches – they want developed countries to open more service sectors and modes of supply than CARICOM.

The multilateral negotiations in the WTO, while important, are not critical to CARICOM's market access objectives because of the nature of most firms in the region, traditional trading patterns and linkages with its key trading partners. In the case of the United States, although the majority of CARICOM countries have not taken optimal advantage of CBI duty-free access, the US still remains the major trading partner for CARICOM countries taken together, and the regional private sector has established strong commercial links in the US market. The US is a significant source of investment in the Region, a major market for tourist arrivals in most CARICOM countries, and is intricately tied to the Caribbean through the latter's diaspora, and a range of security, political and co-operative arrangements. The European Union is critical to CARICOM for development support which has been quite considerable over the years and the guaranteed access for the region's traditional commodities. A significant proportion of tourists also come from European countries. Canada is also important for historical reasons, linkages with immigrant communities, and significant investment in the offshore and onshore financial

¹ Haiti and Suriname are not included in CARIBCAN.

² Suriname is not a beneficiary of the CBI.

services industry. Many Canadian tourists also regularly visit CARICOM countries and the numbers have increased significantly in recent years.

In spite of preferences in their main markets, all CARICOM states except Trinidad and Tobago have consistently run deficits in merchandise trade for the past ten years and overall deficits in their external accounts as well. At the same time, net foreign direct investment (FDI) has been stagnant or declining in many sectors. In order to address its trade imbalance, CARICOM may need to radically change its trade policy approaches in key negotiations.

Perhaps CARICOM needs to re-examine its approach to bilateral initiatives in its key markets. CARICOM participated in the FTAA with the understanding that special provisions would be made regarding the treatment of “smaller economies.” The FTAA was supposed to help integrate CARICOM economies into the wider hemisphere. Given the apparent premature end of the FTAA negotiations, it is time for CARICOM to reconsider its strategic trade policy options in order to continue to promote outward-led growth and development. It should use the opportunity of the negotiation of an Economic Partnership Agreement (EPA) to revitalize its trade and investment links with Europe. Similarly, the planned negotiation with Canada to replace CARIBCAN needs a bolder and more ambitious approach. As well, given the fact that all other countries in the Caribbean Basin will soon have FTAs with the United States, CARICOM needs to rethink its trade strategy towards the UA.

This paper will briefly examine the external trade performance of CARICOM economies and the implications for international negotiations. It will argue that trade liberalization is rapidly leading to the virtual elimination of the relative preferences and privileged position that CARICOM states traditionally enjoyed for their merchandise exports in their key markets. It will further argue that considering CARICOM’s economic idiosyncracies, decision makers must focus on attracting new investment, the development of new service industries and the promotion of services exports since these provide opportunities for new growth, competitive advantage and increased employment.