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# The Proposed CARICOM-Canada FTA: What is in it for CARICOM states?

By

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# Outline of Presentation

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- ▶ Introduction – Background of the CARICOM-Canada FTA.
- ▶ Literature Review - Benefits of North-South's FTAs.
- ▶ Examining the economic pre-conditions of the CARICOM - Canada FTA.
  - ▶ Trade complementarity index.
- ▶ Examining the trade, revenue and welfare implications of the CARICOM Canada FTA.
  - ▶ Partial equilibrium model.
- ▶ Concluding remarks.

# Background of the CARICOM-Canada FTA

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- ▶ The present trading environment between CARICOM and Canada is covered by the Caribbean-Canada Trade Agreement (CARIBCAN) of 1986.
- ▶ The CARIBCAN agreement is essentially a non-reciprocal preferential trade agreement which allows unilateral duty free access to the Canadian market for almost all imports originating from the Commonwealth Caribbean countries.
- ▶ However, this non-reciprocal trading relationship between CARICOM and Canada is not compatible with the World Trade Organization (WTO) rules and will come to an end in 2011.
- ▶ Thus, in order for CARICOM countries to obtain preferential treatment in the Canadian market another trade arrangement that is compatible with WTO rules has to be ratified between both parties.
- ▶ It is against this backdrop that both countries have agreed to explore the prospects of forming a FTA.

# Benefits of North-South FTAs

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- ▶ The proposed CARICOM-Canada FTA will represent the second North-South trade agreement for CARICOM countries.
- ▶ Many commentators have argued that North-South FTAs are more likely to yield benefits for its developing countries membership as compared to South-South FTAs (Schiff, 1997; Schiff & Winters, 2003; Behar & Crivillé, 2010).
- ▶ North-South trade arrangements can facilitate growth in developing countries by providing their south counterparts with access to larger markets, transfer of technology and positively influencing total factor productivity in developing countries, (Grossman & Helpman, 1991; Coe & Hoffmaister, 1999; Schiff & Wang, 2003).
- ▶ In particular, Schiff & Winters (2003) noted that:
  - ▶ “If a developing country is going to pursue regionalism, it will almost always do better to sign up with a large rich country than with a small poor one. In trade terms, a large rich country is likely to be a more efficient supplier of most goods and a source of greater competition for local producers” (p. 15).

# The economic pre-conditions of the CARICOM-Canada FTA – Trade complementarity

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- ▶ The capacity of a FTA to improve the economic outcomes of its members can be obtained from examining the trade structure of the prospective members.
- ▶ The more complementary the nature of the trading relationship between the prospective members of a FTA, the greater the likelihood the FTA will improve the economic outcomes for its members (see Schiff, 2001).
- ▶ The degree of trade complementarity between two countries can be evaluated by a trade complementarity index (TCI).
- ▶ The main proponents (Michaely, 1996; Yeats, 1998) of the TCI argue that the higher the value of the TCI the more likely the proposed FTA will succeed.

# Trade complementarity index

Table 1: Trade Complementarity Index for Major CARICOM countries and Canada (2000 & 2008).

Export from \ Export to	Barbados	Jamaica	St. Lucia	Trinidad and Tobago	Canada
Barbados	-	3.21	3.28	1.13	<i>0.85</i>
Jamaica	0.76	-	0.65	0.36	<i>1.55</i>
St. Lucia	1.82	1.00	-	0.89	<i>2.08</i>
Trinidad and Tobago	1.66	1.86	0.26	0.60	<i>1.20</i>
	2.81	3.67	3.13	1.12	<i>1.14</i>
	3.19	3.34	1.86	-	<i>0.49</i>
	2.56				<i>0.67</i>

Source: own calculations based on UN Comtrade (2010).

- ▶ Table 1 above shows the results of the trade complementarity index for four CARICOM states.
- ▶ The TCI indicates that Jamaica and St. Lucia have TCI values above unity with Canada while Barbados and Trinidad and Tobago has complementarity values below unity.
- ▶ These relatively low values are indicative of a weak degree of complementarity for each of the listed CARICOM member states and Canada.

# The trade, revenue and welfare implications of the CARICOM Canada FTA-Trade effects

Table 2: Liberalizing tariffs on imports from the EU, Canada and the EU & Canada.

Part (a): The impact of full liberalization of tariffs on EU imports only for CARICOM countries mEC\$.

	Trade Creation on existing imports ( $\Delta M_3$ )		Change in imports from CARICOM		Change in extra-regional imports		Change in total imports	
	1	2	3	4	5	6	7	8
	EU only (1998)	EU only (2008)	EU only (1998)	EU only (2008)	EU only (1998)	EU only (2008)	EU only (1998)	EU only (2008)
Bahamas	36.81	20.61	-4.19	-22.95	41.00	43.56	36.81	20.61
Barbados	71.70	88.55	-92.36	-214.97	164.06	303.53	71.70	88.55
Belize	11.61	14.18	-7.39	-9.32	19.00	23.50	11.61	14.18
Dominica	8.60	9.24	-23.96	-42.97	32.56	52.21	8.60	9.24
Grenada	12.01	15.86	-37.69	-67.03	49.70	82.89	12.01	15.86
Guyana	27.38	40.43	-49.83	-213.59	77.21	254.02	27.38	40.43
Jamaica	121.42	230.76	-242.52	-822.85	363.95	1053.61	121.42	230.76
St. Kitts & N.	6.94	9.19	-17.70	-33.30	24.64	42.49	6.94	9.19
St. Lucia	21.33	25.99	-49.51	-128.89	70.85	154.88	21.33	25.99
St. Vincent & G.	16.30	23.74	-33.11	-64.34	49.42	88.09	16.30	23.74
Trinidad & Tobago	160.85	405.69	-69.08	-92.83	229.93	498.52	160.85	405.69

# Trade effects – continued

Part (b): The impact of full liberalization of tariffs on Canada imports only for CARICOM countries mEC\$.

	Trade Creation on existing imports ( $\Delta M_3$ )		Change in imports from CARICOM		Change in extra-regional imports		Change in total imports	
	Canada only (1998)	Canada only (2008)	Canada only (1998)	Canada Only (2008)	Canada only (1998)	Canada only (2008)	Canada only (1998)	Canada only (2008)
Bahamas	19.26	3.88	-4.19	-22.95	23.45	26.83	19.26	3.88
Barbados	12.35	15.96	-92.36	-214.97	103.92	230.94	12.35	15.96
Belize	2.52	2.02	-7.39	-9.32	9.90	11.33	2.52	2.02
Dominica	1.21	2.22	-23.96	-42.97	25.10	45.19	1.21	2.22
Grenada	2.95	4.80	-37.69	-67.03	40.67	71.83	2.95	4.80
Guyana	5.88	5.72	-49.83	-213.59	55.70	219.30	5.88	5.72
Jamaica	43.74	59.86	-242.52	-822.85	286.88	882.71	43.74	59.86
St. Kitts & N.	1.50	2.94	-17.70	-33.30	19.18	36.24	1.50	2.94
St. Lucia	4.62	5.06	-49.51	-128.89	54.92	133.95	4.62	5.06
St. Vincent & G.	1.77	3.32	-33.11	-64.34	34.91	67.67	1.77	3.32
Trinidad & Tobago	44.46	58.98	-69.08	-92.83	113.54	151.80	44.46	58.98



# Trade effects – continued

Part (c): The impact of full liberalization of tariffs on EU & Canada imports only for CARICOM countries mEC\$.

	Trade Creation on existing imports ( $\Delta M_3$ )		Change in imports from CARICOM		Change in extra-regional imports		Change in total imports	
	EU & Can. only (1998)	EU & Can. only (2008)	EU & Can. only (1998)	EU & Can. only (2008)	EU & Can. only (1998)	EU & Can. only (2008)	EU & Can. only (1998)	EU & Can. only (2008)
Bahamas	56.07	24.49	-4.19	-22.95	60.26	47.44	56.07	24.49
Barbados	83.84	104.51	-92.36	-214.97	175.42	319.49	83.84	104.51
Belize	14.07	13.58	-7.39	-9.32	21.46	22.89	14.07	13.58
Dominica	10.40	11.46	-23.96	-42.97	34.28	54.43	10.40	11.46
Jamaica	161.63	290.62	-242.52	-822.85	404.77	1113.47	161.63	290.62
Grenada	14.87	20.67	-37.69	-67.03	52.58	87.69	14.87	20.67
Guyana	33.26	46.14	-49.83	-213.59	83.08	259.73	33.26	46.14
St. Kitts & N.	8.46	12.13	-17.70	-33.30	26.14	45.43	8.46	12.13
St. Lucia	28.91	31.05	-49.51	-128.89	79.21	159.94	28.91	31.05
St. Vincent & G. Trinidad	18.06	27.06	-33.11	-64.34	51.21	91.41	18.06	27.06
&Tobago	202.15	464.67	-69.08	-92.83	271.23	557.49	202.15	464.67

Source: own calculations based on UN Comtrade (2010) and Greenaway and Milner (2004) for 1998 values for EU only.

# Revenue effects

Table 3: Revenue effects of full liberalization of tariff on imports for EU only, Canada only and EU & Canada only.

	EU only (1998)	EU only (2008)	Canada only (1998)	Canada only (2008)	EU & Can. only (1998)	EU & Can. only (2008)
	mEC\$	mEC\$	mEC\$	mEC\$	mEC\$	mEC\$
Bahamas	-395.65	-574.45	-393.40	-573.32	-399.85	-575.46
Barbados	-182.43	-334.58	-259.56	-337.06	-254.82	-339.15
Belize	-52.33	-110.47	-55.44	-109.41	-57.79	-111.77
Dominica	-21.85	-34.62	-21.82	-33.24	-23.53	-35.04
Grenada	-31.19	-57.74	-31.91	-55.27	-34.14	-58.63
Guyana	-79.74	-160.37	-74.77	-152.53	-80.75	-161.75
Jamaica	-635.12	-1210.91	-740.71	-1178.71	-761.09	-1216.79
St. Kitts & N.	-25.89	-68.91	-26.54	-67.84	-27.99	-69.44
St. Lucia	-60.40	-121.73	-63.04	-119.58	-67.77	-122.64
St. Vincent & G.	-27.34	-59.00	-25.68	-55.32	-29.44	-59.67
Trinidad & Tobago	-390.09	-1266.18	-365.12	-1178.28	-402.39	-1280.11

Source: own calculations based on UN Comtrade (2010) and Greenaway and Milner (2004) for 1998 values for EU only.

# Welfare effects

Table 4: Welfare effects of full liberalization of tariffs on imports for EU only, Canada only and EU & Canada only.

	EU only (1998) mEC\$	EU only (2008) mEC\$	Can. only (1998) mEC\$	Can. only (2008) mEC\$	EU & Can. only (1998) mEC\$	EU & Can. only (2008) mEC\$
Bahamas	-324.52	-557.85	-382.94	-569.87	-367.19	-555.42
Barbados	-131.71	-265.46	-248.94	-322.38	-193.52	-255.36
Belize	-43.50	-96.71	-53.10	-107.66	-46.67	-101.23
Dominica	-14.96	-27.29	-20.79	-31.21	-15.21	-25.68
Grenada	-21.83	-45.79	-29.36	-51.31	-22.29	-42.71
Guyana	-53.94	-128.54	-69.74	-147.41	-55.11	-124.80
Jamaica	-550.31	-1056.91	-698.30	-1120.39	-636.97	-1004.45
St. Kitts & N.	-20.39	-60.94	-25.24	-65.23	-21.22	-58.87
St. Lucia	-42.64	-102.09	-57.87	-113.79	-43.19	-97.21
St. Vincent & G.	-16.36	-42.68	-24.12	-52.05	-16.87	-40.07
Trinidad & Tobago	-292.90	-1028.36	-328.44	-1124.07	-270.16	-988.08

Source: own calculations based on UN Comtrade (2010) and Greenaway and Milner (2004) for 1998 values for EU only.

# Conclusion

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- ▶ The results obtained from the partial equilibrium model shows that while there is likely to be some trade creation from the CARICOM-Canada FTA, the overall revenue and welfare effects from a static perspective will be unfavourable for CARICOM states.
- ▶ The room for increased trade between CARICOM states and Canada also appears to be weak given the results of the trade complementarity test.
- ▶ The findings presented in this paper does not provide compelling evidence that a FTA between CARICOM and Canada will yield considerable positive benefits for CARICOM states, especially from a merchandise trade perspective.
- ▶ In this regard, the negotiations of the FTA should take a cautious route so as to mitigate the direct and indirect negative effects on CARICOM states.
- ▶ In particular, CARICOM would need to identify vulnerable product lines that would need provisional protection from the liberalization of tariffs on Canadian imports.

# Conclusion

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- ▶ The continued protection of such industries would be of significant importance in terms of maintaining domestic production capacity and employment of resources in region.
- ▶ Furthermore, a serious look at trade in services may provide a more positive outlook on the FTA.
- ▶ Notably, trade in services is not currently covered by the CARIBCAN trade arrangement.
- ▶ Importantly however, the services sector is the largest sector and contributes the most to GDP for most of the CARICOM economies.

# Conclusion

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- ▶ Chaitoo (2009) noted that the services sector in CARICOM has the potential to account for the largest new benefits from the CARICOM-Canada FTA.
- ▶ However, Girvan (2009) warned that even the prospective benefits from trade in services may be minimal as the services exports that originate from the region presently do not necessarily need a FTA to thrive.
- ▶ Moreover, as the FTA provides greater market access for CARICOM states, the negotiation will also need to focus largely on mechanisms that would assist CARICOM countries to take advantage of the opportunities in the Canadian market.
- ▶ In this regard, negotiations from a CARICOM outlook should also focus largely on Aid for Trade (AfT) among other mechanisms through which greater trade can be nurtured in the FTA.

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*Thank you!!!!*

