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**Should CARICOM Conclude a New Trade Agreement with Canada:  
A Case Analysis of Barbados-Canada Trade Negotiations**

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## 1. Introduction

Ragnar Nurkse's (1953) authoritative statement on trade remains as relevant today, as it did in the past. According to Nurkse, trade is a required activity for less developed countries, as these countries are dependent on foreign exchange and foreign direct investment as conditions for increased growth. Nurkse (1953) essentially argued that the prospects for trade expansion in poor countries are unfavourable without appropriate trade policies.

The multilateral trade system supported the concept of non-reciprocal trade agreements in the past. Pressure from large developing and developed countries, however, has led to the erosion of these agreements. There is great enthusiasm by preference granting industrialized countries for their non-reciprocal agreements to be World Trade Organization (WTO) compatible (Onguglo 1999). A significant illustration of the change towards greater reciprocity came with the expiration of the Lomé Convention and the signing of EU Economic Partnership Agreements (EPA) with the CARIFORUM group of countries in 2008 and the push to have a reciprocal agreement with the African and Pacific group. Canada has also been making great strides to revamp their trade policy regime to enhance their push for more reciprocal trade.

Canada has proposed withdrawing the GPT<sup>1</sup> eligibility from any country that has been classified for the past two consecutive years as a high-income or upper-middle-income country, according to the World Bank classification, or any country that has a share of world exports that is equal to or greater than 1 per cent for two consecutive years, according to the WTO trade statistics. This change would eliminate 72 beneficiary countries and reduce the total number of beneficiary countries from 175 to 103 beneficiaries (United Nation's Conference on Trade and Development, 2013). This new GPT regime is set to come into place in 2015.

Historically, trade relations between CARICOM and Canada have been governed by a preferential agreement. For example, CARIBCAN gave CARICOM goods duty free access to the Canadian market. The origins of this trade agreement stemmed from a decision taken at the 1985 Commonwealth Heads of Government Conference, to grant Caribbean countries trade development assistance (Wharton 2009). Many predicted that the signing of EPAs would set a precedent for the thrust towards more reciprocal trade agreements of the CARICOM grouping. The fact that Canada and CARICOM launched negotiations for an enhanced trade agreement to replace CARIBCAN is a fulfilment of a daunting prophecy. The end of CARIBCAN was inevitable, though, as the original waiver was set to end in 1996, but the Contracting Parties to the General Agreement on Tariffs and Trade (GATT) approved an extension of CARIBCAN until 1998 (World Trade Organisation, 2008). The Contracting Parties granted an additional waiver for the extension of CARIBCAN at the request of the Canadian government in order to provide cover for CARICOM exports until the negotiations were concluded. This waiver was

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<sup>1</sup> Canada offers duty free concessions, or in some cases, reduced rates of duties under its Generalised Preferential Tariff Regime (GPT), which is applicable to a wider group of developing countries

to have ended in 2011; however, due to the slow pace of the negotiations another wavier was sought and granted until the end of 2013.

**Table 1: CARICOM Exports to Canada US\$ (000s)**

	2000	2004	2008	2012
Antigua and Barbuda		472,153	5,150,324	1,740,302
Bahamas	9,422,893	42,827,736	69,248,938	146,697,909
Barbados	4,958,233	6,547,395	8,002,945	9,551,564
Belize	6,637,509	6,403,224	10,212,893	3,202,666
Dominica	1,129,909	241,299	317,343	221,850
Grenada	1,023,918	969,155	826,374	2,282,857
Guyana	133,159,660	152,145,652	212,013,676	454,419,904
Jamaica	133,100,180	264,462,687	308,557,804	101,900,561
Montserrat	61,659	183,331	130,824	197,230
Saint Kitts and Nevis	2,958,631	6,299,021	4,931,938	9,608,604
Saint Lucia	948,719	281,893	146,355	267,185
Saint Vincent and the Grenadines	270,670	94,728	127,853	169,548
Trinidad and Tobago	48,681,178	120,267,334	321,575,185	248,389,360
<b>Total</b>	<b>342,353,159</b>	<b>601,195,608</b>	<b>941,242,452</b>	<b>978,649,540</b>

Source: United Nations COMTRADE Online Database Rev.3

Negotiations continued to progress slowly and no agreement was reached at the end of 2013. While the Canadians have not requested another extension of the wavier, CARICOM goods will continue to enter duty free until June 2014 under a *de facto* arrangement. Therefore CARICOM and Canada must conclude all negotiations by the end of March 2014 to allow for legal scrub and finalisation to be concluded by the end of June 2014. The failure to conclude a reciprocal agreement would seriously curtail CARICOM exports of goods to Canada, as many goods would face high duties and become uncompetitive, which could lead to an erosion of the trade surplus they have enjoyed with Canada.

#### *Implications for Barbados*

Barbados' access to the Canadian market was governed by CARIBCAN and has reaped significant benefits for the country in relation to exports of spirits, sauce, seasonings, and condiments. Spirits (Rum) is the major export from Barbados to Canada: total exports of rum to Canada were BDS\$14.8 million in 2012 (Table 2). As indicated previously, Canada is currently applying its CARIBCAN duty free concessions to Barbadian products under the *de facto* arrangement while negotiations for a WTO compatible trade agreement press on. After the CARICOM-Canada agreement is concluded, all Barbadian goods covered by the agreement will continue to enter the Canadian market duty free under the current GPT regime set to expire at the end of 2014. If there is no agreement between CARICOM and Canada, Barbados will be de-listed from the list of beneficiaries' countries and its goods would attract high duties. Rum would face a positive duty of CDN 24.6 cents per litre of absolute ethyl alcohol and CDN 12.3 cents per litre of absolute ethyl alcohol for bottled and bulk rum and become uncompetitive.

Barbados has had a longstanding advantageous investment relationship with Canada that is unique among CARICOM Member States. This relationship was formed with the signing of a Bilateral Investment Treaty (BIT) in 1996. Barbados' main interest in the investment negotiations would be to maintain this advantage and ensure that what is covered in the Trade Agreement does not erode the gains that the country has enjoyed over the years. Barbados must therefore ensure that the final trade agreement allows for the parallel operation of the BIT. In relation to trade in services, Barbados must push for the use of the positive list<sup>2</sup> and establish mutual recognition agreements with specific provinces in order to achieve market access that is truly beneficial. The use of the positive lists will provide greater policy space for Barbados in terms of providing protection for local service providers especially in areas that could lead to increased economic growth in the long run. The issuing of work permits lies with the federal government while the issuing of licenses for professionals rests with the provinces. Therefore, actual market penetration in terms of trade in services may not be realised unless bilateral or mutual recognition agreements are undertaken with key provinces.

**Table 2: Barbados Primary Exports to Canada (US\$)**

Commodity	1995	2000	2005	2010	2012
Live animals, n.e.s.	79,071	41,050	221,500	235	675
Fish fillets, frozen		18,645		35,035	50,050
Bread, baked goods	14,062	32,284	33,458	98,741	96,759
Oth.frsh,chll.vegetables	156,974	25,877	7,883		3,925
Veg.products,roots,tubrs	302,984	8,587		800	53
Fruit,fresh,dried, nes	236,072	31,950	7,354	3,863	34,089
Margarine, etc.	5,563	16,484		1,264	2,405
Sauce,seasoning,condiment	7,014	26,871	33,738	4,609	15,029
Food preparations, nes	5,269	70,263	13,346	16,014	33,826
Non-alcohol.beverage,nes	7,439	116,468	21,104	27,739	23,500
Spirits	1,160,742	2,334,696	4,697,477	5,406,541	7,411,616

Source: United Nations COMTRADE Online Database Rev.3

The completion of the CARICOM-Canada trade agreement would ensure that Barbadian goods covered by this new agreement will continue to enter duty free and would avoid the GPT delisting process. The gains in relation to goods may not be realised in the area of services since Canadian provinces possess a high degree of autonomy. In lieu of a new trade agreement being finalised between CARICOM and Canada, Barbados not only stands to lose its preferential access to the Canadian market through the GPT for its goods, it may also lose an opportunity to build existing export advantages, and forgo the ability to create new ones.

Barbados's exports to Canada are limited relative to products that can be expanded with the conclusion of any new trade agreement. This paper will identify the products in which

<sup>2</sup>This allows countries to list the extent of their liberalisation commitments only in the sectors offered for liberalisation.

Barbados has comparative advantages and propose policy options to strengthen existing and build new advantages. Thus the primary impetus of this research is not to derive new or novel methodologies of trade performance, but to inform trade negotiations with Canada.

## 2. Methods

To aid in the identification of those goods Barbados has established an advantage in the Canadian market, and those greater investments should be made, we draw upon the popular Balassa's (1965) measure of relative export performance (the Revealed Comparative Advantage [RCA] index). This index is the most widely used approach to analysing revealed comparative advantage (Lorde, Alleyne and Francis 2010). The index has been also been noted for its ability to determine the competitive position of a country (2010), relative to another country or group, with respect to the goods traded. It is calculated as:

$$RCA_{ij} = \frac{X_{ij} / \sum_j X_{ij}}{\sum_n X_{nj} / \sum_n \sum_j X_{nj}}$$

where  $X_{ij}$  is the reporter  $i$ 's export value of item  $j$ ;  $\sum_{j=1}^J X_{ij}$  is the total export value of reporter  $i$ ;  $\sum_{n=1}^N X_{nj}$  is the export value of item  $j$  for a set of  $n$  reference countries;  $\sum_n \sum_j X_{nj}$  is the export value of all  $j$  for a set of  $n$  reference countries; and  $RCA_{ij}$  is the revealed comparative advantage of  $i$  in  $j$ . The interpretation of the  $RCA_{ij}$  results is relatively simple; a value which exceeds one (1) indicates that  $i$  has a comparative advantage in the export of  $j$  in the market of a set of reference countries; while  $RCA_{ij}$  less than one (1) indicates that  $i$  possesses a comparative disadvantage. Calculations are based on the exports data sourced from the United Nations Commodities Trade (UNCOMTRADE) online database at a disaggregated level, using the Standard International Trade Classification (SITC) 3.

## 3. Results

Table 3 presents the list of Barbados' exports to the Canada over the period 1995 to 2012 with the corresponding calculated RCA index. An alarming result occurs in 2009. Following the initial impact of the global financial crisis, comparative advantages that previously existed for a number of exported items were lost, and many other commodities ceased to be exported. This demonstrates the severity of external negative impacts to the domestic export sector. Five commodities registered a comparative advantage in 2009. However, only four have demonstrated consistent market advantages over time. This may be seen as a measure of penetration of the local product in the export market in relation to those goods.

**Table 3: Barbados' RCA With Canada**

Commodity	1995	1996	2000	2001	2005	2006	2009	2010	2011	2012
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Live animals	40.0	74.4	53.0	204.2	247.7	109.6	0.1	0.2	0.4	0.5
Pigmeat,dry,salt,smoked	-	-	-	-	-	-	-	-	-	-
Fish fillets, frozen	-	-	4.9	11.0	-	10.5	8.2	11.3	5.2	17.2
Fish fillets,fresh,chilled	-	-	4.0	-	-	0.2	-	-	-	-
Fish,dried,salted	-	-	-	-	-	-	-	-	-	-
Bread, baked goods	0.7	1.9	3.1	2.0	2.0	2.8	1.3	3.3	4.1	2.6
Other fresh,chill.vegetables	29.2	35.1	6.8	12.5	1.1	-	-	-	-	0.3
Vegetables frozen	24.7	24.2	0.0	-	-	-	-	-	0.1	0.1
Veg.products,roots&tubers	6,447.1	3,171.3	983.6	14.6	-	-	-	47.2	0.3	0.1
Other citrus, fresh or dried	1,195.8	10,712.3	-	-	-	-	-	-	-	-
Figs, fresh or dried	10,784.6	9,804.5	-	-	-	-	-	-	-	-
Edible nuts fresh or dried	103.4	39.7	-	1.8	-	-	-	-	-	-
Fruit, fresh or dried	85.3	100.4	30.4	30.9	3.7	4.3	-	1.2	4.0	6.2
Jams, fruit jellies, marmalades, fruit or nut pastes as cooked preparation	2.2	5.1	5.9	13.3	16.0	-	-	-	1.1	0.7
Orange juice	-	-	50.8	0.0	-	-	-	-	-	-
Juices,other than citrus	-	-	8.0	-	-	-	-	-	11.6	-
Sugars,beet or cane, raw	-	-	-	-	-	-	-	-	7.2	-
Other beet,cane sugar	-	-	-	-	-	-	40.8	-	-	-
Fruit, nuts, fruit peel and other parts of plants, preserved by sugar or	-	-	-	-	-	-	-	-	-	-
Sugar confectionery	0.2	2.3	0.1	-	-	0.0	-	-	-	-
Tea	-	-	-	-	15.6	0.0	-	-	-	-
Pepper,dry,crushed,ground	6.3	-	-	-	-	-	-	-	-	2.6
Spices,pepper,pimento	6.4	1.8	-	0.0	-	-	-	-	-	13.9
Margarine, etc.	17.0	8.6	55.9	13.3	-	-	-	0.8	-	0.9
Sauce,seasoning,condiment	2.2	2.7	10.4	304.1	8.2	3.0	0.0	0.9	3.4	2.4
Food preparations	0.4	0.6	12.9	1.6	0.9	0.6	0.1	0.8	1.1	1.4
Non-alcohol.beverage	0.7	1.0	21.8	9.1	4.3	3.1	0.5	8.5	6.5	4.8
Wine of fresh grapes	-	-	-	3.7	-	-	0.6	0.6	10.0	2.6
Fermented beverages (e.g., cider, perry, mead); mixtures of ferment	-	-	-	1.7	-	-	-	-	1.0	0.8
Beer made from malt (including ale, stout and porter)	-	-	0.0	0.1	0.0	-	16.5	5.6	7.8	13.9
Spirits	48.6	97.8	276.4	243.2	756.2	692.2	558.5	776.3	728.7	795.6
Cigars, cheroots and cigarillos, containing tobacco	-	-	139.6	34.9	-	12.6	-	-	1,535.0	68.4
Cigarettes containing tobacco	-	-	0.1	0.6	-	1.0	-	3.9	8.2	32.2
Other manufactured tobacco	-	-	11.4	-	-	-	-	20.3	37.2	165.5

Note: Highlighted values indicate revealed comparative advantages.

Over the review period, a number of commodities recorded comparative advantages at some point:(1) *Live animals*; (2) *Bread, baked goods, Other fresh or chilled vegetables*; (3) *Vegetables frozen*; (4) *Vegetable products, roots or tubers*; (5) *Other citrus, fresh or dried*; (6) *Figs, fresh or dried*; (7) *Edible nuts fresh or dried*; (8) *Fruit, fresh or dried*; (9) *Jams, fruit jellies, marmalades, fruit or nut pastes as cooked preparation*; (10) *Spices, pepper, pimento*; (11) *Margarine*; (12) *Sauce, seasoning, condiment*; (13) *Food preparations*; (14) *Non-alcohol beverage*; (15) *and Spirits*. Many of these products failed to maintain their advantageous position or consistency over time.

In the latter years, a few products showed increased preference within the target market. These include: (1) *Non-alcohol beverage*; (2) *Wine of fresh grapes*; (3) *Beer made from malt (including ale, stout and porter)*; (4) *Spirits*; (5) *Cigars, cheroots and cigarillos, containing tobacco*; (6) *Cigarettes containing tobacco*; (6) *Other manufactured tobacco*; (7) *Fish fillets, frozen*; (8) *and Bread, baked goods*. This indicates the possibilities of the these items in

addition to the re-branding (new marketing strategy) needed for those items which once held a significant advantage and are still being produced locally.

According to Table 3, the category of *Spirits* (locally made rum), and to a lesser extent *Bread, baked goods*, have been the only exports with a consistent advantage, and which have also increased their advantage over the entire period of analysis (except for a slight decline in 2009 which may have been related to the global crisis). The results also indicate that the commodities for which comparative advantages have been observed infrequently are primarily natural resource-intensive, while other commodities for which Barbados enjoys a *consistent* comparative advantage, are more technologically-intensive.

At this point it must be acknowledged that the level of preferences to which all CARICOM nations are currently entitled may have bolstered the findings of comparative advantage presented in this analysis. Any significant alterations to the previous agreement will adversely impact on the level of penetration of Barbadian commodities into the Canadian market. It may also be worthy of note that with a limited number of items for export and fewer with advantages in the target market, Barbados' position at the bargaining table should be one that will include necessary aid for targeted capacity building for potentially gainful export industries that continue to be in a stage of infancy.

#### **4. Policy Considerations**

With an ongoing process of discussions towards an objective of garnering a larger share of destination markets, it is appropriate that negotiators be aware of the current level of competition that Barbados and Canada may pose to each other's production markets.

Barbados must ensure that the goods in which it has a comparative advantage are covered by the CARICOM-Canada Trade Agreement to maintain duty free access to the Canadian market. The analysis shows that certain goods failed to consistently maintain their advantage over time, leading to a decrease in the exportation of these goods to Canada. An investigation needs to be urgently undertaken to uncover the challenges faced by the manufacturers/exporters of these products in order to develop a policy which would lead to increased production and aid in the attainment of international standards to improve market penetration. To the best of the researchers' knowledge, there has not been any official study undertaken that provides this pertinent information for the enhancement of the sector.

Reflection should be given to the assertions of Young (1928) in relation to less developed countries, that a prospective market may be limited by demand and supply impediments. The analysis shows that Barbados lost its comparative advantage in several products; however, the analysis does not examine the factors that caused such erosion. According to Young, bottlenecks may exist on the supply side which makes it increasingly difficult to maintain or increase the returns from these products. Therefore, an examination at the micro level of the

production chain for the comparatively advantageous export items should be undertaken in the short run. Accordingly, Barbados can seek to analyse and eliminate possible supply side bottlenecks, which could lead to increased trade of these, and possibly new export items to the Canadian market.

The national export agency in collaboration with other agencies often provides marketing opportunities (via trade fairs and exhibitions) for local manufacturers/businesses in foreign markets. In many instances the majority of manufacturers are not export ready and are often unable to meet the quantity and quality demanded by the international consumer. Though this strategy provides a useful avenue of offering some international exposure, the trade fairs have yet to lead to any significant increases in export activity, and more emphasis needs to be placed, at least for the time being, on improving the export ability and capacity of local manufacturers.

Based on consultations with the relevant ministries, Barbados currently does not have a macro export policy framework or the necessary environment to aid businesses to become fully export ready, or increase their export capacity, which would result in meaningful increases in trade or trade creation opportunities. Therefore, considerable and immediate efforts should be made in the development of an aggressive export strategy for Barbados. Yet, for this strategy to be effective Barbados' business environment must also be transformed from one that operates on a culture of nepotism and political patronage to an environment where competition is welcomed, financial aid is readily available and technical assistance is shared. Moreover, for such an environment to exist, policy makers must: eliminate protracted negotiations where continuous extensions are sought, as it inhibits the reorientation of manufacturers to the new international trade environment in which they will ultimately be compelled to operate; quicken the sluggish pace of policy and standards development; and revolutionise the overall commitment of culture to developments for international trade.

Finally, the pace of policy implementation in Barbados has fallen gravely behind what is necessary for the country as it seeks to emerge from prolonged recession and regain international competitiveness. This critical plank of public sector service delivery needs to be urgently revitalised, beginning at the policy level, and continuing at the technical level.

## **5. Conclusion**

The importance of trade has been noted for decades, and the relevance of such trade to the small developing countries remains critical. With the focus now on more reciprocal trade, the process of negotiations between Canada and CARICOM member states has brought Barbados to an opportunistic juncture to critically assess its own internal production, develop more targeted export and trade strategies, while exploring all avenues of aid, which will ultimately improve the existing product value to the Canadian market.

Despite repeated granting of extensions to the original CARIBCAN agreement, Barbados, along with the rest of CARICOM members, remains unprepared to offer greater reciprocity to Canada and therefore face the possibility of losing their share of the Canadian market. Failure to conclude a reciprocal agreement will seriously curtail the export of goods to Canada, as they will face high duties, become uncompetitive, and erode the trade surplus currently enjoyed.

Barbados remains covered by the temporary *de facto* provision of duty free concessions, although the window for such preferences continues to close rapidly. Faced with the possibility of being de-listed from the beneficiaries list by 2015, the lost in export options and reduced advantages in others, Barbados must ultimately seek to reach a speedy conclusion to the current negotiations, while maintaining its trade in investment advantage (through achieving parallel operation of the BIT), securing continued duty free access for its goods and maintaining policy space for the services sector.

Although the current research highlights important issues facing Barbados' export sector vis-à-vis the Canadian market, an impact analysis of reduced levels of access by Barbadian commodities needs to be urgently undertaken. While such a study should have already been undertaken, given that several extensions have already been granted, the results would be able to provide even more guidance to these critical negotiations.

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