A Canada-CARICOM “Trade-not-Aid” Strategy: Important and Achievable

As Canada seeks to leverage the forces of private enterprise in support of international development goals, it should negotiate trade agreements with both low- and middle-income countries that address obstacles to fostering trade. Current talks with Caribbean countries can meet this important objective.

Phil Rourke
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The Study In Brief

Canada’s trade with countries of the Caribbean Community (CARICOM) is small. Yet because the region is one in which Canada has significant interests – including major Canadian investments in the region – and where it can make a difference, Canada’s approach to the current trade negotiations with CARICOM assumes a broader importance in its trade negotiating and international development strategies.

Trade negotiations with CARICOM have progressed at an uneven pace since their launch in 2007, in part due to severe stresses in the region in the wake of the global recession of 2008/2009. This paper proposes a practical strategy to spur the talks to a successful conclusion. The strategy involves finding agreements on a few key practical issues first, upon which the more general framework for open trade can be built.

The Commentary proposes that Canada work with CARICOM to address concerns about the ability of firms in the Caribbean to benefit from more open trade with Canada. This would include launching a process to address regulatory barriers to trade in rum, and re-focusing Canada’s current monetary assistance to the region on Caribbean trade–related development priorities, in the context of implementing a bilateral deal. With much of the potential for bilateral trade growth concentrated in services, Canada could also accept the Caribbean’s more limited “positive list” approach to services liberalization, while engaging with the region on broader long-term services liberalization efforts. Cultural trade – important to the Caribbean but a sensitive issue for Canada – could be promoted through cultural exchanges and co-productions.

Canada could evoke the need to enhance the region’s economic stability and innovative capacity in securing wider protection for investment and intellectual property. Canada and CARICOM should also address practical impediments to two-way mobility of skilled labor, a topic which will gain in importance in future trade negotiations generally. Finally, Canada should adopt a less high-handed approach with respect to the commitment it seeks from CARICOM on labor and environmental standards, as these are unlikely to become issues in practice.
The Canadian government is currently conducting a review of trade negotiation priorities for its 2013 Global Commerce Strategy (Canada 2012b). From a strictly commercial interest viewpoint, Canada’s trade relations with the Caribbean Community (CARICOM)1 do not merit inclusion in this priority list, but there are good reasons why they should be.

The priority list likely will include such diverse countries as India, South Africa, Turkey, and members of the Trans-Pacific Partnership such as Vietnam. A successful trade strategy with these countries, however, will require new thinking on how to deal with political, economic, and cultural differences that Canada typically does not face when dealing with the United States or other developed countries. That is where the Canada-CARICOM negotiations can play a key role in Canada’s trade aspirations: they will help us build a better framework for current and future trade negotiations between developed and developing countries. Discussions on this subject point to a strategic partnership on trade and development issues that can serve as a model for how countries can work together for mutual economic gain. Eventually, this could lead to a resolution of the continuing quandary of how to implement an effective “trade-not-aid” strategy. In this context, the effort is worth the potential gain.

In this Commentary, I examine the challenges of creating a new trade and development negotiation framework. I begin by looking at the Canada-CARICOM trade relationship, why the current bilateral trade negotiations were started, and the main challenges to confirming an agreement. I then discuss what would be required, at a minimum, to complete the negotiations. Finally, I recommend ways to design an agreement that promotes a strategic trade and development partnership between Canada and the CARICOM countries.

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however, Canada’s relationship with CARICOM ranks in the same category as that with Colombia and Peru – countries with which Canada has negotiated and implemented trade agreements in recent years. These agreements have been modestly successful in improving prospects for trade and investment and increasing bilateral engagement (Canada 2012c).

CARICOM countries view Canada through a similar lens. Canada is the third most important market for CARICOM-based goods, after the United States and the European Union (primarily the United Kingdom). The relative importance, however, of each market to CARICOM’s trade is significant: the United States is the market of choice for more than 50 percent (and growing) of all CARICOM exports. In contrast, the relative shares of CARICOM goods being shipped to the EU (approximately 12 percent) and Canada (less than 4 percent) are modest and have been trending downward in recent years. The one important difference is that Canada is the only developed country market with which CARICOM has a trade surplus.

Services and related investments are the most important part of the bilateral trade relationship. Trade in services represents more than $3 billion annually and Canadians have $73 billion in direct investments in the region (Gauthier and Meredith 2011 and 2012a), including in “offshore financial centers” such as the Bahamas and Barbados (Lavoie 2005). Three of Canada’s largest banks – CIBC, Royal Bank of Canada, and Scotiabank – dominate in the region. Important in the broader services trading relationship are tourism and the temporary movement of people. The latter traditionally has consisted mainly of CARICOM nationals seeking work opportunities in Canada (particularly to address labour shortage gaps), but has grown to involve greater numbers of Canadian firms in the region. These services flows are deeply important to the bilateral commercial relationship, and they represent emerging opportunities.

The Canada-CARICOM commercial relationship historically has been one of relatively few disagreements. What brought the two sides together this time is the nonreciprocal nature of goods trade under the 1986 CARIBCAN Agreement and the need to modernize the agreement before its 2011 expiry date. The objective of the agreement is to encourage CARICOM-based trade with Canada. Under the agreement, CARICOM-based firms get duty-free access to the Canadian market with some exceptions, while Canadian firms have no corresponding preferential access. Since the agreement is nonreciprocal, it contravenes World Trade Organization (WTO) rules, and therefore requires a waiver from the WTO to be implemented.

The CARICOM countries’ tariff-free access to the Canadian market is now threatened, however, because the waiver is granted only for a specific period of time and only if all WTO members agree (the waiver on the CARIBCAN arrangement was extended for two years, to December 2013). The possibility then exists that the waiver will be rejected and tariffs on Caribbean goods coming into Canada will snap back to WTO levels. Although most CARICOM goods already enter the Canadian market duty free due to Canada’s relatively low WTO tariff regime, predictability of costs is always preferred for stable markets.

Negotiating a fully reciprocal agreement would also provide an opportunity to deal with services, investment, intellectual property rights, and other regulatory frameworks that promote the development of a knowledge-based economy. Both Canada and CARICOM enjoy benefits in

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2 See CIBC (2011); Royal Bank of Canada (2011); and Scotiabank (2011).
these areas through the WTO. But until new life is breathed into the Doha Round of multilateral trade negotiations, a bilateral deal is the best way to further open markets.

To address these and related issues, Canada and CARICOM launched free trade negotiations in 2008. Five formal rounds of negotiations have since taken place. As a result of the time frame of the current WTO waiver, the unofficial deadline for the negotiations is December 2013. Both sides have agreed to an ambitious schedule to try to meet that deadline, but an agreement in time is unlikely without a significant change in approach.

**WHY THE SLOW PROGRESS TO DATE?**

Countries enter trade negotiations to address a set of commercial problems that they cannot solve through other measures and to set the future rules of the game for their trade relationships. Trade negotiations move quickly and efficiently when the agenda is clear, there are significant commercial gains to be achieved by both sides, and the deadline is fixed (with negative implications for both sides if it is not reached).

None of these conditions is present in the Canada–CARICOM negotiations. There is no agreed negotiation agenda, although the key areas have been identified and several proposals have been tabled. The commercial gains on both sides are marginal: some Canadian firms are looking for increased access, but most companies that are interested in the region are satisfied with current access; and of the few CARICOM firms that are ready to export, most are more focused on staying competitive in their own markets than looking beyond their borders. Further, the 2013 deadline is assumed to have some elasticity because previous WTO waivers were approved.

Both sides were aware of these challenges before launching negotiations. But they persevered because free trade negotiations have become the preferred instrument of governments to demonstrate their level of seriousness in a bilateral relationship. Commercial interests, as a result, frequently become secondary to a broader political engagement strategy. Moreover, in the Canada–CARICOM context, the value of the interconnecting webs of political, economic, and people linkages has always been assumed to be greater than the sum of their individual parts. Launching free trade negotiations is just the latest example in a history of attempts to leverage these relationships (see Canada 2007).

Because the two sides have not acknowledged that the proposed solution—a conventional free trade deal—would not solve the problem, it is assumed that they are not trying hard enough to get a deal. The real problem is that CARICOM countries are not in a position to gain significantly from an agreement. Firm size, a lack of a critical mass of competitive firms and domestic suppliers, weak governance, underfunding of trade institutions, and limited integration into increasingly powerful global supply chains combine to make it difficult for Caribbean-based firms to compete (see Persaud 2009). Many countries are also looking inward, not outward, as a result of the impact of the financial crisis. Fundamentally, domestic economic reform at this time would go a lot further to release the entrepreneurial spirit across the region than any business opportunity outside the region.

The bilateral negotiations continue because governments do not like giving up on trade negotiations once launched, especially if the deadline is almost a year away and there is a chance to extend it. So if both sides want a deal, where do they go from here?

**GETTING A DEAL DONE**

The first step is an agreement that addresses at least the minimum test of WTO compliance to neutralize the waiver issue. The negotiations should begin by narrowing the agenda mostly
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to goods and goods-related issues – for example, standards, rules of origin, and trade facilitation. There should also be an understanding that Canada will provide technical assistance to support the implementation of the agreement. The rationale is straightforward: trade agreements have value only if they are implemented. Yet CARICOM countries have significant capacity constraints on effective implementation and need some assistance. It is in Canada’s interests to provide it.

The advantage of this approach is that if a comprehensive deal does not take shape before the waiver expires, both sides can shift gears and put together a limited deal to satisfy the WTO. The goal would be to no longer have the waiver hanging over the negotiation process.

To begin, each side should address each other’s key “goods” issue. CARICOM countries want Canada to eliminate its tariffs and reduce, if not eliminate, a number of nontariff barriers on rum products. The situation is complicated by the fact that one such barrier – the listing, distribution, and pricing practices of liquor boards – falls under provincial jurisdiction. Federal-provincial cooperation therefore would be required to resolve CARICOM’s most important goods-related issue. The federal government could help by financing trade development measures to promote cooperation between CARICOM rum producers and Canadian wine and microbrewery producers who face similar liquor board practice challenges. As the old negotiating adage goes, the strongest pressure that can be brought to bear in trade negotiations comes from domestic constituents.

For its part, Canada is interested in the reduction of tariffs by CARICOM countries on a number of industrial and agricultural goods (Canada 2012a). Adopting the approach used under the CARIFORUM-European Union Economic Partnership Agreement (EPA) of long phase-out periods for tariffs and a commitment to technical assistance would likely be acceptable to CARICOM countries on these and other goods.

**A Forward-looking Trade and Development Agreement**

With these issues resolved and the WTO compliance test achieved, the negotiations then could focus on a substantive trade and development agenda. Here is a seven-point plan to get there.

1. **Agree to negotiate a link between “trade” and “development”**

The Caribbean has been identified as a priority for Canadian development assistance since Prime Minister Stephen Harper’s 2007 commitment of more than $600 million to the region (Canada 2007). Sustainable economic growth – which includes private-sector development and sound commercial policy – is also a strategic priority for Canadian development assistance. Canada is therefore interested, and already engaged, in a trade and development agenda in the region. The main obstacle so far has been CARICOM’s insistence that a specific financial commitment for development be written into the agreement. Canada is opposed to this because it does not want to bind future governments to a specific financial figure in an international treaty. Canada also argues that trade-related assistance is already available through the $600 million commitment.

The practical way forward is for CARICOM to identify specific trade-related programs that would best address its “trade and development” needs. Both sides then could develop appropriate programming, to be financed within the current Canadian development assistance commitment to the region. Canada could signal that, initially, it would consider contributions to trade agreement implementation programs proportional to those
committed by the EU under the CARIFORUM-EU EPA. A larger amount could also be justified once it was demonstrated to lead to practical results.

The terms for development cooperation could be set out in an exchange of letters or a similar means. Monitoring the use of funds could be accomplished through mechanisms such as those provided in the Technical Cooperation chapters of both the Canada-Colombia and Canada-Peru free trade agreements. This would promote the strategic use of funds and responsibility on both sides to ensure programming effectiveness.

2. Address trade in services

Any Canada-CARICOM trade agreement would have to include commitments on trade in services, given the relative importance of services in today’s economies, their long-term potential for growth, and the relative strengths of firms in the sector. The key issues are how to: (a) schedule those commitments; (b) address obstacles to growth in export markets (for example, how the lack of mutual recognition of qualifications acts as effective barrier to trade); and (c) address the relative strengths and weaknesses between Canada and CARICOM services providers.

The Canada-CARICOM negotiations could provide an opportunity to introduce work being done at the WTO on a potential plurilateral agreement on services. In these discussions, Canada and 15 other “real good friends” of services trade liberalization are attempting to reach a deal that eventually could become multilateral under the WTO. A key consideration is whether to adopt a “positive list” approach (liberalization of only those sectors listed) rather than Canada’s preferred “negative list” approach (listing only those sectors not covered under the agreement). The negative list approach is simpler and more liberalizing because it applies to all sectors not listed. But the WTO has adopted a positive list approach, so both options are possible solutions. If Canada agreed to a “positive list” – the preferred CARICOM approach – it would help move the discussions forward.

The next step would be to address barriers to services trade, particularly those related to recognition of foreign credentials. This is a difficult issue to address since such recognition is done mainly at the provincial level and by professional self-regulating bodies. The work, however, needs to be done, and Canada’s free trade agreements with Colombia, Peru, and Panama provide a framework for addressing these issues in an agreement with CARICOM. Progress then could be made through a targeted strategy with technical and capacity-building support.

3. Undertake a side agreement on cultural/creative industries

Addressing trade issues with respect to the cultural industries presents particularly difficult challenges, as commercial and social policy objectives conflict. At the same time, as an area of relative strength where CARICOM countries see opportunities for export, progress in the negotiations is likely if accommodations can be found on both sides.

Canada’s cultural policies predate the Internet age. Clearly, they need to be revised and updated to acknowledge the ways cultural content are produced and transmitted today. The issue will not be solved

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3 The EPA provides for €72million (approximately C$93 million) in trade-related technical and capacity building assistance. Given than the gross domestic product of the European Union is approximately 11 times that of Canada, the proportional Canadian dollar figure would be about $8.5 million. See Cariforum-EU Business Forum (2009).

anytime soon, however – and certainly not within the context of the Canada-CARICOM trade negotiations. An alternative model therefore needs to be found.

The “Protocol on Cultural Cooperation” in the CARIFORUM EPA is a good starting point. This framework provides a mechanism for technical assistance cooperation outside the strict confines of a trade agreement. A properly structured side agreement could open commercial opportunities in this sector without compromising Canada’s position on cultural industries in other trade agreements. To give substance to the agreement, both sides could agree to bilateral initiatives on cultural cooperation. For example, in lieu of temporary entry commitments for professionals in the cultural industries (which Canada traditionally exempts from trade agreements), cultural exchanges involving such professionals could be funded through the cultural cooperation agreement. A similar approach could be used to address CARICOM’s interest in film co-production agreements. The framework could be used as the basis for negotiation of an audio-visual co-production agreement and other initiatives of mutual interest in the cultural industries.

4. Improve and enforce investment rules

In today’s world, trade frequently follows investment. Countries seeking to increase trade therefore must deal with the relative competitiveness of their investment regimes. Investment chapters in bilateral trade agreements are important for a number of reasons. They provide greater certainty about investment rules and their enforcement, and typically they include dispute settlement mechanisms to address common investment issues (such as expropriation). When negotiated as part of a foreign investment protection and promotion agreement (FIPA), they also indicate to the investors’ world that the developing country is serious about attracting investment. This in turn builds confidence in the trade regime beyond the borders of the bilateral trade agreement partners.

Currently, Canada has FIPAs with Barbados and Trinidad and Tobago. An investment chapter could broaden that list to all 15 CARICOM countries. This would signal to the international business community that the region was looking outward for partners to assist with its economic development. It could also increase the confidence level of Canadian investors, thereby increasing the prospects of more trade with the region over the longer term.

5. Enforce intellectual property rights and promote innovation

It is easier to make the case that enforcing intellectual property rights is in a country’s best interests if its inventors are benefitting fully from the commercialization of their ideas. Promoting innovation in the CARICOM countries and supporting it through an innovation development fund would be an important step toward increasing the number of stakeholders in intellectual property protection.

CARICOM proposals linking innovation and intellectual property look promising, particularly those on how to engage Canadian firms in building the region’s innovative capacity. The chapter on intellectual property rights thus should include some of the language being proposed, particularly in support of bilateral initiatives on innovation capacity development.

6. Ease labour mobility

Canada is involved in a global search for talent to meet the challenges of knowledge-based economic growth and the increasing shortage of skilled workers (see Chase 2012). Much of the attention so far has been on the Philippines, China, and India, the three most important sources of skilled
workers for Canada. Although the contribution of the Caribbean is small, it also continues to be a significant source of talent for Canada. Thus, an emphasis on improving labour mobility within a Canada-CARICOM trade and development context could lead to mutual gains.

The movement of skilled workers across national borders is one of the big issues that must be addressed in future trade negotiations. This is particularly important for developing countries, which continue to experience a significant “brain drain.” Issues such as the portability of social benefits across borders, access to health services on a commercial basis in another country, and the ability to work in multiple jurisdictions are important for both sides.

Portability of social benefits, for example, is seen as a way to encourage Canadians to move temporarily to the region to seek business opportunities without the risk of losing their unemployment insurance or healthcare coverage. CARICOM sees mutual recognition agreements (MRAs) as an opportunity to open up the Canadian market to Caribbean-based professionals who otherwise cannot work in Canada because their credentials are not recognized.

7. Improve labour and environmental cooperation

Canada is seeking side agreements with CARICOM on labour and environmental standards, particularly commitments similar to those included in Canada’s free trade agreements with Colombia, Peru, Honduras, and Panama. These commitments are limited to an agreement by both sides to respect each other’s domestic laws and regulations and international commitments – for example, to the International Labour Organization (ILO) – in these areas. The commitments include aspirational language for increased standards, but no firm commitments to make changes. Some CARICOM members are concerned that making such commitments would reduce their policy flexibility, an argument, however, that is not consistent with similar commitments they have already made under the CARIFORUM-EU EPA.

CARICOM has raised a legitimate concern about the possibility of sanctions of up to $5 million under a proposed agreement on labour cooperation. In Canada’s trade agreements with Peru and Colombia, for example, such sanctions could be enacted if the member state were found through an independent review to have failed effectively to implement its labour laws. The country then would be required to deposit the penalty in a fund to improve its labour laws to a specific standard.

But are such sanctions really necessary? There has never been a case of sanctions, or even a discussion of launching an investigation, in any other free trade agreement that Canada has signed. Canada’s agreement with Costa Rica does not include such sanctions, so why should an agreement with CARICOM do so, particularly since all of its members are signatories to ILO conventions that commit them to the same objectives? Canada’s expected flexibility on labour and environment issues in its negotiations with India suggests that there is room for a deal if CARICOM comes up with a proposal acceptable to its members.

Conclusion

Firms need every advantage to compete in today’s international markets. Using the same trade agreement template works well for the big players, but not necessarily in negotiations between developed and developing countries.

On a strictly commercial interest basis, the Canada–CARICOM trade negotiations as currently conceived do not justify the effort being put into them. But such a deal would be justified if it were framed as a forward-looking trade and development agreement that helped CARICOM countries integrate more fully into the world economy.
The Canada-CARICOM negotiations are a chance to design a trade agreement that gives both sides a competitive advantage, creates opportunities for strategic partnerships, and improves prospects for negotiations with other trading partners. A well-conceived agreement also could lead to the economic growth and development required for a mutually beneficial “trade-not-aid” strategy between the developed and developing worlds.

Such an innovative approach would be an improvement on what the European Union offered through the recently negotiated CARIFORUM-EU Economic Partnership Agreement. A strategic partnership as outlined in this paper between Canada and the region is also likely to be better than what may emerge from the eventual renegotiation of CARICOM’s trade relationship with the United States. The creation of a strategic partnership is the fundamental challenge for both Canada and CARICOM in these negotiations and the reason it is worth the effort.
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Notes:
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