



Possible new agreements with Central America and wider Latin America and Africa

Don Charles

Introduction

From 1947, when the General Agreement on Tariffs and Trade (GATT) was formed, to the present, there have been eight rounds of multilateral trade liberalization. Under the multilateral process, countries around the world met, and gradually agreed to reduce barriers to trade. This helped remove excessive protectionist policies held by different countries, and encouraged the growth of international trade globally.

At the Uruguay Round of Multilateral Trade Liberalization, the conference stalled on the issue of agriculture. There was also contention around the treatment of several issues that affected agriculture trade, namely market access, anti-dumping rules, and producer subsidies. Although the Uruguay Round, completed in 1994, is considered a failure, it led to the formation of the World Trade Organization (WTO) (WTO 2010).

The next multilateral round was launched in Doha, Qatar (hence the reason why it is called the Doha Rounds). However, there was contention on agricultural issues, especially on cotton, and on the Singapore issues. Given the deadlock of the Doha Rounds, countries have moved towards regional trade liberalization, where preferential trade is negotiated between trading blocs to liberalize trade (WTO 2010).

Regional trade agreements differ in structure and in the issues that they negotiate, nevertheless, they have a common goal: to increase the gains from international trade by the mutual reduction of trade barriers between trading partners. A key premise of regional trade arrangements is that neighboring countries bear similarities, such as culture, language, and similar economic history. Thus, the similarity may act as a bond to help the countries expand trade more quickly than countries separated by great geographical distances. Furthermore, regional trade liberalization gives neighboring countries the option to unite as a bloc, then collectively negotiate preferential trading arrangements with other trading blocs. This approach grants countries more negotiating power. Indeed, it is easier for small groups of neighboring countries to agree upon ways to reduce trade barriers rather than 140 dissimilar countries to do so through a broad multilateral trade round.

All Caribbean Community (CARICOM) Member States, with the exception of the Bahamas and Montserrat, are members of the World Trade Organization (WTO), and have also adopted the regional approach to trade liberalization (McLean and Singh 2018).

Trinidad and Tobago (T&T), the southernmost island country in the Caribbean, is also a CARICOM Member State. CARICOM is a customs union, while the CARICOM Single Market Economy (CSME) is a common market. The CARICOM Member States also unite as a trading bloc to negotiate bilateral and regional trading agreements with extra-regional trading partners.

CARICOM has successfully negotiated bilateral trading agreements with several extra-regional partners, namely Venezuela (1993), Colombia (1994), Cuba (2000), Dominican Republic (2001), and Costa Rica (2004). CARIFORUM, has also negotiated a regional trade agreement with the European Union (EU), namely, the Economic Partnership Agreement (EPA) (2008).

T&T has also negotiated bilateral partial scope trade agreements with several countries, namely, Panama (2013), Guatemala (2015), El Salvador (2015), and Chile (2020).

T&T has bilateral investment agreements with France (1993), the United Kingdom (UK) (1993), the United States (US) (1994), Canada (1995), Cuba (1999), Spain (1999), China (2002), the Republic of Korea (2002), Germany (2006), Mexico (2006), India (2007), Switzerland (2010), and Guatemala (2013) (IPH 2020).

T&T also benefits from unreciprocated preferential trade with the US, through the Caribbean Basin Initiative (CBI), and Canada through the Caribbean-Canada Trade Agreement (CARIBCAN). Both one-way unreciprocated preferential trade agreements require a waiver from the WTO.

Indeed, although T&T is a small country with a GDP of approximately 24.27 billion USD in 2019, the country has demonstrated its openness and willingness to participate in preferential trade. Preferential trade gives the country more market access, and greater opportunities to generate gains from international trade.

As T&T aspires to generate more economic growth from international trade, it can look towards new markets. For instance, it may consider new markets in Central America, South America, and even Africa.

The objective of this study is to analyze Trinidad and Tobago's trade with Central America, South America, and Africa and determine if a possible new trade agreement is net welfare increasing for T&T.

The rest of the paper is organized as follows. Section 2 will give a review of the literature on economic integration and the welfare effects of regional trade agreements. Section 3 will assess T&T's trade with Central America. Section 4 will examine T&T's trade with South America. This is followed by an examination of T&T's trade with Africa in Section 5. Section 6 highlights T&T's export strength. Section 7 reveals the result of a partial equilibrium model which estimated the welfare effects of potential regional trade agreements. Section 8 furnishes a discussion. Section 9 concludes with policy recommendations.

2.0 Literature Review

Regionalism, which is trade liberalization through the formation of regional preferential trade agreements, as described by Bhagwati (1991), has occurred in three waves: first, second, and third. The first wave the early preferential trade agreements, formed from the 1950s that covered goods trade. In fact, the formation of the European Economic Community (EEC) marked the start of the first wave. This first wave was 'shallow' and covered the reduction of tariff barriers to goods trade (Rojid 2006).

Why should countries form regional trade agreements? Do countries truly benefit from regional trade agreements? The aforementioned questions are old questions that were addressed from as early as the work of Viner (1950).

In regional preferential trade agreements, member countries grant preferential market access to each other. In other words, they reduce or totally eliminate the tariff and quota barriers placed on the trade of goods between each other. However, the trade also becomes discriminatory. In other words, tariffs and quotas are reduced between the members but they are imposed on non-members. The resulting effect of the trade discrimination is the increase in trade between the member countries, an effect that is referred to as trade creation. Additionally, there may be a decrease in trade with the non-member countries, an effect that is referred to as trade diversion. Viner (1950) argued that a preferential trade agreement would be net welfare increasing if the effects of trade creation outstrip the effects of trade diversion. Importantly, the message from the Vinerian approach was that preferential trade agreements, as distinct from nondiscriminatory trade liberalization, had the potential to diminish the economic welfare of member countries.

One of the more common arguments about which country pairs will find preferential trade agreements to be net welfare increasing for both groups of trading partners is the natural trading partner hypothesis. The natural trading partner hypothesis, in which Lipsey (1960) builds upon the work of Viner (1950), argues that international trade between countries in a region can have more trade creation effects than trade diversion effects, and thus can be more welfare increasing. This occurs

because the trade diversion is limited to the products the countries already import from outside the region.

Lipsey (1960, p. 508) asserts

“given a country’s volume of international trade, a customs union is more likely to raise welfare the higher is the proportion of trade with the country’s union partner and the lower the proportion with the outside world.”

He then goes on to state

“a customs union is more likely to raise welfare the lower is the total volume of foreign trade, for the lower is foreign trade, the lower must be purchases from the outside world relative to purchases of domestic commodities. This means that the sort of countries who ought to form customs unions are those doing a high proportion of their foreign trade with their union partner, and making a high proportion of their total expenditure on domestic trade. Countries which are likely to lose from a customs union, on the other hand, are those countries in which a low proportion of total trade is domestic, especially if the customs union does not include a high proportion of their foreign trade.” (Lipsey 1960, pp. 508-509).

Wonnacott and Lutz (1989) argue that if countries are natural trading partners, then the effects of trade creation will outstrip the effects of trade diversion and thus the preferential trade agreement would be beneficial to all members. The key criteria to establish the natural trading partners was the volume of trade between the countries, and the geographic distance or transport cost between the countries. This argument was reinforced by Krugman (1991) and Frankel et al. (1995).

As first argued in Panagariya (1995) and reinforced by Bhagwati and Panagariya (1996b), this view is untenable to determine natural trading partners, since a high initial volume of trade between countries can result in huge tariff revenue loss for the government. Therefore, the formation of the preferential trade agreement causes a tariff revenue redistribution from the government to consumers in the form of consumer surplus. Secondly, the volume of trade does not necessarily suggest that trading partners are ‘natural’ since a high volume of trade may be the consequence of trade preferences.

Bhagwati et al. (1999) emphasized on whether preferential trading agreements were “building blocks” or “stumbling blocks” to liberalized

trade. They argued that if a PTA expands its membership, it may increase welfare, and thus will be a building block. Alternatively, a preferential trade agreement can be seen as a building block if by adding new members it gradually liberalizes trade.

Otherwise, the preferential trade agreement would be a stumbling block. This frame of thought was popular in the second wave of regionalism, which started when the United States formed free trade agreements with Canada under the Canada–United States Free Trade Agreement (CUSFTA), and Mexico under North American Free Trade Agreement (NAFTA) (Rojid 2006). The second wave of regionalism was deeper than the first wave as it included issues such as rules of origin (limiting trade creation and encouraging trade diversion), non-tariff barriers, and other nontraditional areas (e.g. competition policy) into preferential trade agreements (Bhagwati and Panagariya 1996a, b; Rojid 2006).

The earliest study making the connection between geographic proximity or transport cost and trade liberalization is Johnson (1962). He remarked

“If the separate markets of various members are divided by serious geographical barriers which require high transport costs to overcome them, the enlargement of the market may be more apparent than real.” (cited in Bhagwati and Panagariya 1996b, p. 19).

Johnson (*ibid*) seemed to be arguing that that trade liberalization may be meaningless if high transport costs prevented trade from breaking out (Bhagwati and Panagariya 1996b).

Wonnacott and Lutz (1989) argue that since a close geographic proximity between countries may increase the trade between them, due to lower transport costs, a preferential trading agreement between the countries would have lower trade diversion effects. Thus the close countries would be natural trading partners as the gains from freeing intra-regional trade will be larger and the losses of reducing interregional trade will be smaller (Schiff 2001).

Bhagwati et al. (1998) acknowledged that trade liberalization between countries can be limited due to large geographic distance and high transportation costs. But a close geographic distance and

low transportation costs do not automatically translate into natural trading partners.

The third wave of regionalism commenced in the 1990s, and marks a period with a sharp uprising in the number of preferential trading agreements globally (Bhagwati and Panagariya 1996b; Rojid 2006). As previously mentioned, this growth in preferential trade agreements is the consequence of the present Doha Rounds of multilateral trade liberalization being stalled, and the preferential trade option being the feasible alternative to liberalize trade between countries.

In this third wave regionalism era, Schiff (2001) proposes a new justification for regional trade liberalization. Schiff (2001) remarked that

“Adherents to the “natural trading partner” hypothesis argue that forming a PTA is more likely to raise welfare if member countries already trade disproportionately with each other. Opponents of the hypothesis claim that the opposite is true: welfare is likely to be higher if member countries trade less with each other. This paper shows that neither analysis is correct and that the “natural trading partner” hypothesis can be rescued if it is redefined in terms of complementarity or substitutability rather than in terms of volume of trade.” (p. 245).

Thus, Schiff (*ibid*) emphasizes the importance of trade complementarity as the key criteria to determine if countries are natural trading partners and may benefit from a preferential trade agreement.

Schiff (1999) used a partial equilibrium model to prove that a small home country is better off as being a small member of a large bloc than as a large member of a small bloc. He also demonstrated that the key factors that determine the welfare effects of a preferential trade area are the size of the tariff on the goods, and the elasticity of the demand for the imports.

From a review of the literature, it can be revealed that a partial equilibrium model can be used to determine the welfare effects of a trade agreement. The literature emphasizes the importance of examining trade creation and trade diversion to estimate the welfare effects. Additionally, trade complementarity, the size of the tariff on the goods, and the elasticity of the demand for the imports are relevant determinants of the welfare effect of a preferential trade agreement. As a result, these concepts will be considered in the analysis of the

potential welfare effects of a preferential trade agreement between T&T and other regions, namely Central America, South America, and Africa.

3.0 Assessment of T&T's trade with Central America

T&T has enjoyed a positive balance of trade, or a balance of trade surplus with Central America for many years. In the year 2000 T&T exported TT\$1,258,977,503 worth of products to Central America. This value fluctuated over the years, as it declined to TT\$415,663,263 in 2004, jumped to TT\$2,611,132,788 in 2008, contrast to TT\$910,228,014 in 2009, increase to TT\$2,272,837,338 in 2010, decline to TT\$825,388,078 in 2012, rebound to TT\$4,376,710,715 in 2013, then drop to TT\$406,318,848 in 2016. Indeed, T&T's exports to Central America displayed strong volatility over the past two decades.

T&T's imports from Central America were more stable. It gradually grew from TT\$194,345,475 in 2000 to a peak of TT\$ 1,457,059,604 in 2012, then declining to TT\$816,451,652 in 2013 where it has remained relatively constant thereafter.

T&T's imports from the Central American market has been less than 2% for the entire 2000 to 2019 period. Less than 5% of T&T's total exports go to the Central American market. These low import and export shares suggest that presently, the Central American market is not an important market for T&T.

The number 1 exported product from T&T to Central America is petroleum and petroleum products, with a trade value of approximately TT\$624 million. This is followed by fertilizers, with a trade value of TT\$125 million, then paper products with a trade value of TT\$82 million. Collectively, these 3 product groups accounted for 77% of T&T's exports to Central America in 2019.

Notably, the trade of hydrocarbon natural resources and their downstream products (crude oil, natural gas, refined petroleum products, and fertilizers) are typically not covered by trade agreements.

4.0 Assessment of T&T's trade with South America

T&T experienced a negative balance of trade with South America over the 2000 to 2012 period. Over the 2013 to 2019 period, T&T held a small but positive balance of trade with the South American market.

In contrast to the Central American market, the South American market is more important for T&T. This is reflected in the import and export shares. T&T imported approximately 30% of its total imports from Central America in 2000. Over the next 19 years, this import share gradually declined to 6.35% by 2019.

Over the 2000 to 2009 period, T&T exported less than 5% of its total exports to the South American market. From 2010 onwards, there was a gradual increase in the exports, reaching a peak of 21% in 2015. This export share gradually declined to 8.78% in 2019.

The change in the export share to the South American market reflects the change in T&T's natural gas trade. At the inception of the Atlantic LNG natural gas export project in 1999, approximately 70% of T&T's liquefied natural gas (LNG) was targeted at the North American market, 20% went to Latin American importers, and the remaining 10% was targeted at Spain in the European market (McLean et al. 2021). The US was the main importer in the North American market. However, the US experienced the shale gas revolution from the mid-2000s, causing it to become energy self-sufficient and reducing its need to import gas. Subsequently, T&T responded by diversifying its natural gas export base.

Petroleum exports was T&T's number 1 export to the South American market, followed by natural gas exports at number 2, then inorganic chemicals at number 3. Collectively, the top 3 exported product groups accounted for 80% of T&T's total exports to the South American market.

5.0 Assessment of T&T's Trade with Africa

T&T's trade with Africa was characterized by a balance of trade deficit over the 2000 to 2019 period. T&T's imports from Africa increased

until reaching a maximum of approximately TT\$14,890 million in 2014. From 2015 onwards, there was a steady decline in T&T's imports from Africa. In comparison, T&T's exports to Africa have historically been less than TT\$4 billion over the entire 2000 to 2019 period.

Similar to the Central American market, the import and export shares suggest that the African market is presently not a major market for T&T. In 2000, T&T's import share for goods from Africa was 3.93%. This suggested that only 3.93% of T&T's total imports were sourced from the African region. By the year 2014, the import share managed to increase to a maximum of 20.67%. From 2015 onwards, T&T's import share from Africa was on a steady decline. In comparison, T&T's export share to Africa was less than 5% for the entire period. This highlights that Africa is not an important destination market for T&T's exports.

T&T's top products exported to Africa include inorganic chemicals, natural gas, and petroleum products. Therefore, the energy products also dominate T&T's exports to Africa.

Although Africa is approximately 10,801 km away from T&T, which is further than 1,244 km of South America, and 2,662 km of Central America, it has a population of 1.216 billion. In comparison, South America has a population of 422.5 million, and Central America a population of approximately 47.5 million. Therefore, Africa is the larger market and has more opportunities.

6.0 T&T Exports Strength

To assess T&T's relative export strength, the International Revealed Comparative Advantage (IRCA) index is used.

The IRCA is computed for all T&T export products using SITC revision 4 double-digit data. The results are as follows:

(SITC 11) Beverages – IRCA of 1.19;

(SITC 33) Petroleum and related products – IRCA of 2.14;

(SITC 34) Natural gas – IRCA of 28.50;

(SITC 51) Organic chemicals – IRCA of 6.91;

(SITC 56) Fertilizers – IRCA of 15.43;

(SITC 67) Iron and steel – IRCA of 3.19.

T&T has comparative advantage in the aforementioned products. These products are also among T&T's top exports. These results suggest that T&T's trade being driven by its energy endowments, and thus exhibiting Heckscher-Ohlin type trade.

7.0 Results of the Partial Equilibrium Model

The partial equilibrium model was used to estimate the welfare effects of potential preferential trade agreements between T&T and Africa, South America, and Central America.

In summary, the value of T&T's imports in 2019 from CARICOM, Africa, South America, and Central America were US\$783,909,012, US\$123,548,948, US\$2,713,998,382, and US\$708,318,320 respectively.

The preferential trade agreement may cause an increase in imports from Africa, South America, and Central America. This will be the trade creation effects, stipulated in the imperfect substitution case of the Greenaway and Milner (2003) model. See Appendix for greater details. However, there will be trade diversion effects resulting in a decrease in imports from CARICOM the intra-regional partner. Using data up to 2019, the trade diversion effects for CARICOM are estimated to be US\$252,200,251. In other words, the estimated loss in imports from CARICOM is estimated to be US\$252,200,251.

The trade creation, which is the increase in imports from the extra-regional trading partner due to the preferential trade agreement, for Africa is estimated to be \$83,149,063. The trade creation for a potential preferential trade agreement with South America is estimated to be \$825,059,095. The trade creation from a potential trade agreement with Central America is estimated to be TT\$432,390,576.

The change in welfare from a potential preferential trade agreement with Africa is estimated to be TT\$2,554,855,748. In other words, after considering the potential gains from the increase in consumer surplus from the lower prices, the increase in imports, and the change in tax revenue, the estimated net welfare gain of the preferential trade agreement between T&T and Africa is TT\$2,554,855,748. This positive value suggested that the preferential trade agreement is net welfare increasing, and T&T may benefit from signing a preferential trade agreement with Africa.

The potential welfare effect of a preferential trade agreement between T&T and South America is TT\$2,435,227,485. The estimated welfare effect of a potential preferential trade agreement between T&T and Central America is TT\$2,495,766,200. Therefore, the preferential trade agreements have the potential to increase the welfare in T&T. Here, welfare refers to the net effect of the increase in consumer surplus, the increase in imports, and the change in tariff revenue.

8.0 Discussion of Relevant Trade Issues

There are several issues that will arise in the consideration of preferential trade between T&T, and any of the external regions (Africa, South America, and Central America).

8.1 Type of Trade Liberalization

Perhaps one of the first issues to consider is to determine the extent to trade liberalization. Several options are available. First, is a partial scope agreement where the tariff is reduced or removed only on a few specific commodities. The second option is a preferential trade agreement where the tariff is reduced on a selected range of goods traded between countries. The third is a full free trade agreement where the tariffs are removed on all traded goods between the partner countries. The fourth option includes deeper trade integration, where the partner countries may consider the liberalization of the movement of labour to form a common market. The fifth is where countries consider the liberalization of trade, as well as the development of a common

currency to form a currency union. The sixth is where partner countries may decide to liberalize trade, join currencies, and synchronize the implementation of economic policy through the formation of an economic union. Finally, the last form of economic integration is where trade is liberalized, a common currency is developed, there is a common economic policy, and a common government to rule the region in a political union.

As previously mentioned, T&T is presently a CARICOM Member State. Through the revised Treaty of Chaguaramas, the CSME is a common market that is supposed to facilitate the free movement of labour among selective groups of skilled professionals in the region. T&T also negotiates preferential trading agreements with other regions or large trading partners as part of CARICOM. This is practiced since the principle of non-discrimination enshrined in the WTO mandates the same preferential treatment to be offered to its regional partners. In other words, since T&T is a member of CARICOM which is a customs union, then it must apply the common external tariff (CET) on all non-custom union trading partners. If it offers greater preferences to another region that it has a preferential agreement with, then the WTO's principle of non-discrimination mandates that it also extends the same preferences to the other CARICOM Member States.

Alternatively, T&T engages in negotiations with different countries and signs partial scope trade agreements in specific commodities. This is possible since the partial scope is so limited that it does not cover the goods which are covered by the CARICOM agreement. A recent example of this can be seen in the signing of the General Framework Agreement for the commencement of negotiations of a Partial Scope Trade Agreement between the Republic of Trinidad and Tobago and the Republic of Chile in October 2020 (MTI 2020). The Partial Scope Trade Agreement is intended to cover T&T's trade in natural gas with Chile.

Therefore, it would be rational for T&T to consider the negotiation of a partial scope trade agreement with countries in Africa, South America, and Central America. It would also be rational for T&T to consider the negotiation in a partial scope trade agreement in only the product groups that it has strength. Since energy products are not typically covered by trade agreements, the potential product

groups could include beverages, tobacco products, and agro-processed products. Additionally, T&T can also consider manufactured goods that may have niches.

8.2 Reciprocated or Unreciprocated Trade

Another important issue that will be relevant in the negotiation of any preferential trade between T&T, and the regions (Africa, South America, and Central America) is the form of trade preferences. More clearly expressed, T&T would need to consider if it is interested in reciprocated or unreciprocated preferential trade.

T&T's preferential trade with its larger trading partners was traditionally of the unreciprocated form. This was the case for T&T's trade with European countries (as part of the African Caribbean and Pacific (ACP) country bloc) in the Lomé Agreements, T&T's trade with the US under the Caribbean Basin Initiative (CBI), and T&T's trade with Canada under the Caribbean-Canada Trade Agreement (CARIBCAN). Notably, the regional trading partners of the aforementioned agreements were developed countries.

If T&T considers the negotiation of a preferential trade agreement with Africa, South America, or Central America, it would be negotiating with developing countries. Subsequently, T&T will not be eligible for any WTO waiver on special and differential treatment since both country blocs would consist of developing countries. Therefore, to be WTO compatible, the preferential trade agreement would have to be reciprocated.

As previously mentioned, T&T has a comparative advantage in the production and export of agro-processed products, beverages, and tobacco. Africa, South America, and Central America are known to be strong in the production of primary agricultural commodities. Therefore, the discussion of any potential partial scope trade agreement between T&T and the aforementioned regions may be centered around T&T's export of agro-processed products, beverages, and tobacco, and T&T's import of primary agriculture commodities from the aforementioned regions. The trade negotiations will be centered

around reciprocity where preferential access is granted to T&T in exchange for preferential access into T&T's market.

8.3 Rules of Origin and Cumulation of Origin

Africa is comprised of 54 countries. South America is comprised of 14 countries. Central America is comprised of 7 countries. Additionally, the production of final products often requires factor inputs from other countries. This raises an important issue regarding the rules of origin.

Rules of origin are the criteria needed to determine the economic nationality or country of origin of a traded product, which in turn determines if the product is eligible for preferential treatment or not. The application of rules of origin can be very simple if 100% of a product is produced in a country. This would be the case if all the inputs required to produce a product are also produced locally. However, in today's world, global value chains are used to produce products. Different raw materials are sourced from different countries, and in some instances, different stages of the production process are outsourced to different countries. Subsequently, a final product is often the result of inputs as well as the work of many different actors spread across different countries.

The need to establish rules of origin is based on the fact that the sourcing of inputs as well as the production process can be spread across multiple countries. Therefore, rules of origin must be established to determine if a product should be considered a product of a preferential trade area country, which would make it eligible for preferential treatment, or if it is not from a preferential trade area country, and thus supposed to face the most favoured nation or common external tariff.

The WTO recognizes 2 categories of rules of origin. The first is non-preferential rules of origin. They are referred to as "non-preferential" since they are applied to trade where there is no preferential trade agreement to determine the economic nationality of a product. The second is the preferential rules of origin. This second category is applied where a preferential trade agreement exists, and is used to determine the country of origin in order to grant preferential treatment or apply the most favoured nation tariff (WTO 2021a).

A product is deemed as originating from a specific preferential trading area country if sufficient processing of that product has taken place within the country. Sufficient processing is typically determined on

- the basis of a minimum allowable value of intermediate imports as a certain percentage of the value of the final product;
- a change in tariff classification rule; and
- conforming to specific production processes (Augier et al. 2005).

The actual impact of rules of origin will then depend on how “sufficient processing” is defined. Consider a hypothetical example, assume *Country B* has a comparative advantage in the export of agro-processed products, and thus desires preferential access mainly in this sector. Assume *Country A* grants preferential access to *Country B* in agro-processed products. However, *Country A* only allows 10% of the inputs used in the final product to be sourced from foreign countries. Assume *Country B* produces a beverage (an agro-processed product) that is comprised of 15% sugar. As *Country B* does not produce sugar, it imports sugar. Therefore, at least 15% of the inputs are sourced from a foreign country. Subsequently, the beverage produced by *Country B* is no longer classified as originating from *Country B* since more than 10% of its inputs are sourced from foreign sources. Subsequently, a most favoured nation tariff is applied to *Country B*’s export of the beverage to *Country A*.

As can be seen from the previous example, rules of origin is a very important issue as it can effectively prevent a trade agreement from being trade liberalizing. They offer hidden protection from partner country imports as products may be deemed to have originated from outside of the partner country if it has too many inputs sourced from foreign sources.

Consider another example. Assume that *Countries A* and *B* have formed regional preferential trading area. Let this regional preferential trading area be called *ABC*. Assume that *ABC* signs a regional trade agreement with another *Region XYZ*. Assume that *Region XYZ* grants preferential access to *Region ABC* in the agro-processing sector. Assume

that *Country B* seeks to produce and export beverages to *Region XYZ*. However, *Region XYZ* has a similar limit of 10% foreign inputs as a rule of origin. The lowest price of sugar is available in *Country H* which is outside of the region. However, to comply with the rules of origin, *Country B* imports more expensive sugar from *Country C* which is a member of *Region ABC*.

As can be seen from the previous example, rules of origin can also provide an incentive for regional producers to purchase intermediate products from regional sources, even if their prices are higher than those of the identical import from outside the preferential trade area, in order, for their product to qualify as originating from within the region (Krishna 2005). If carefully crafted, rules of origin can protect the partner country as it induces the other country to source higher priced inputs, subsequently making its costs of producing higher than if the inputs were sourced from lowest priced areas.

The aforementioned example also introduces the concept of cumulation of origin. Cumulation of origin allows inputs from a partner country in a preferential trade area to be counted as part of inputs of the given country, when seeking to export goods under preferences in a regional trade agreement.

There are 4 types of cumulation. The first is bilateral cumulation, which allows the cumulation in the trade between 2 trading partners. In other words, if 2 countries sign a preferential trade agreement, then either country may use inputs from each other and the final product can still be deemed to have originated from the trading partner.

The second type of cumulation is diagonal cumulation, which operates between more than 2 countries. This allows the cumulation and the sourcing of inputs from a defined country or a set of countries.

The third kind of cumulation is regional cumulation. This is a form of diagonal cumulation, where cumulation is allowed for the sourcing of inputs within a region. The aforementioned example with cumulation in the trade between *Regions ABC* and *XYZ* is an example of regional cumulation.

The fourth type of cumulation is full cumulation. This is where the country is allowed to outsource the processing of its product to another country and still be able to qualify as the economic nationality of the product when it is exported to a preferential trading area country.

Notably, there is no global harmonization in rules of origin and the cumulation of origin. Therefore, the rules of origin used by one group of countries in a preferential trade agreement may significantly differ from the rules of origin they may agree upon another preferential trade agreement with another region. They are crafted and negotiated between countries to serve as an effective protectionist measure against the imports of specific products.

8.4 Sanitary and Phytosanitary Measures

In the trade of food products, sanitary and phytosanitary (SPS) measures emerges as a significant issue. Sanitary and phytosanitary measures address animal and plant health, and food safety. They seek to ensure that a country's consumers are being supplied with food that is safe to eat — by acceptable standards.

SPS measures seek to

- *“protect human or animal life from risks arising from additives, contaminants, toxins, or disease-causing organisms and their food;*
- *protect human life from plant- or animal-carried diseases;*
- *protect animal or plant life from pest, diseases, or disease-causing organisms; and*
- *prevent or limit other damage to a country from the entry, establishment, or spread of pests.”* (Alford et al. 2002, iii).

The Agreement on the Application of Sanitary and Phytosanitary Measures arose from the conclusion of the Uruguay Round of the Multilateral Trade Negotiations. It applies sanitary (relating to animals) and phytosanitary (relating to plants) measures, which are basic rules for food safety and animal and plant health standards. It allows

countries to set their food safety and animal and plant health standards. The Agreement also says regulations must be based on science, and they should not arbitrarily or unjustifiably discriminate between countries where identical or similar conditions prevail (WTO 2021b).

Notably, one of the major non-tariff barriers to trade in agriculture and agriculture-products is SPS measures (Skorobogatova and Knebel 2011; Arita et al. 2015; Cadot et al. 2015). SPS measures may affect trade by adding increased compliance, inspection, and operational costs. Moreover, if the exporting country is unable to comply with the SPS measures, they may effectively serve as de facto bans on specific food exports.

SPS measures can be grouped into 8 categories. The following 6 SPS measures pertain to technical regulations:

“prohibition and/or restriction of the final products to be imported (for example import bans on dairy products from countries with poor sanitary conditions);

tolerance limits for residues and restricted use of substances such as food and feed additives used for coloring, preservation, and sweeteners;

labelling, marking and packaging requirements like specifying the storage conditions, or alerting to potentially dangerous ingredients such as allergens;

hygienic requirements involving microbiological criteria of the final product (such as that liquid eggs should be pasteurized or otherwise treated to destroy salmonella microorganisms), or hygienic practices during production (such as milking equipment should be cleaned daily with a specified detergent), and other hygienic requirements;

post-harvest treatment such as irradiation and fumigation; and

other requirements on production or post-production processes, for example requirements on how plants should be grown or how animals should be raised or caught.” (Arita et al. 2015, p. 4).

The next classification of SPS measures deals with conformity assessments. An example of this category includes tests on imported fruit samples to verify compliance with the maximum residues of pesticides. The last category of SPS measures covers all other animal and plant health standards and food safety regulations (Arita et al. 2015).

Developed country markets such as the EU and US have strong SPS measures. SPS measures such as the 10% limit on the allowable level of aflatoxin reduces the export of cereals from sub-Saharan African (SSA) countries by 11% and by 4.3% for fruits, nuts, and vegetables (Otsuki et al. 2000). Whereas, conformity assessment-related SPS reduces the likelihood of firms entering the EU market (Crivelli and Gröschl 2012).

Fortunately, Africa, Central America, and South America do not have the same stringent SPS measures as developed countries. Nevertheless, Africa has a policy on SPS measures, namely the African Union Sanitary and Phytosanitary Policy Framework for Africa.

The African Union's (AU's) SPS Policy Framework has expressed the AU's intention to establish harmonized science-based SPS systems, taking into account both the international standards and regional conditions. The aims are as follows:

- Strategy 1.1 - Support Member States' legislative/regulatory review, harmonization, and modernization of SPS legal/regulatory frameworks based on international standards.
- Strategy 1.2 - Encourage Member States to establish and comply with science-based SPS measures to safeguard human, animal, and plant life and health.
- Strategy 1.3- Promote the use of risk assessment to ensure the least restriction trade whenever possible while minimizing risk to public health.
- Strategy 1.4 - Establish and promote systems of surveillance for priority pathogens, pests and food and feed safety hazards of highest concern in plants, animals, and food.
- Strategy 1.5 - Advocate for the use of the concepts of regionalization/zoning and compartmentalization (recognizing Pest- or Disease-Free Areas and Areas of Low Pest or Disease Prevalence throughout the continent) to facilitate safe trade (AU 2019).

In contrast to the EU, the AU has a weak capacity to enforce its SPS measures (AU 2019).

8.5 Trade Defense Mechanisms

In the absence of a trade agreement, countries would typically apply a most favoured nation tariff equally to all trading partners. The WTO allows an exception to be made to the most favoured nation treatment by the invoking of trade remedies. Trade remedies are provisions that allow countries to impose additional duties to counter the effects of unfair trade practices, and to help domestic industries cope with import surges. The popular trade remedies used include antidumping duties, countervailing duties, and safeguards.

Antidumping Duties

Dumping refers to the practice where a country exports a good or goods to a foreign country at a price lower than the price in its domestic market. There are 4 general permutations of dumping. The first is sporadic dumping, which occurs where countries sporadically sell excess unsold products to foreign markets at prices lower than the domestic price. The second is predatory dumping, where countries deliberately export products to foreign markets at prices lower than domestic prices with the objective of eliminating competition and gaining market share. The third is persistent dumping, which occurs when a country persistently sells products at a lower price in the foreign market compared to the domestic market. The fourth is reverse dumping which occurs when the country recognizes the demand for its exported product is inelastic and deliberately sets its exported product price higher in the foreign market than in the domestic market to make greater profits.

Article 6 of GATT allows countries to take action against dumping. This is reinforced by the WTO's Anti-Dumping Agreement. The anti-dumping provisions allow countries to impose additional import duties on the dumped products in order to bring their prices closer to the "normal value" or to remove the injury to domestic industry in the importing country (WTO 2021c).

Countervailing Duties

In instances where a country's domestic or export subsidies are resulting in import surges in foreign countries, the WTO provides the importing countries with 2 counteracting options. The first option is to use the WTO's dispute settlement procedure to seek the withdrawal of the subsidy or the removal of its adverse effects. The second option is for the country can launch its investigation, and subsequently charge a countervailing duty, which is an additional duty, on subsidized imports that are found to be hurting domestic producers (WTO 2021c).

Safeguards

The Anti-Dumping Agreement also allows countries to temporarily restrict imports of a product or product from specific exporters if the importing country's domestic industry is injured or threatened with injury from import surges.

Notably, under Article 19 of GATT, countries always had the option to counter import surges with safeguards. However, some countries adopted for "grey area" measures where they would use moral suasion to persuade exporting countries to voluntarily reduce their export of specific products. In contrast, the WTO agreement prohibits "grey-area" measures, and sets a "sunset clause" on safeguard measures. Therefore, countries are no longer allowed to use moral suasion to seek voluntary export restraints (WTO 2021c).

In the negotiation and signing of any trade agreement, countries such be mindful of the potential for import surges and mechanisms to address them. If T&T signs a partial scope preferential trade agreement with Africa, Central America, or South America, it needs to be cautious about the potential for import surges. Given that T&T is relatively weak in the primary agriculture sector, and the aforementioned regions are strong in the primary agriculture sector, there is a potential for import surges of primary agriculture products. While T&T may not be aspiring to export primary agriculture products, import surges have the potential to harm domestic farmers. Therefore, it would be in T&T's best interest if the trade is strongly monitored to detect the emergence

of potential import surges and the need to apply appropriate trade remedies and defense mechanisms.

9.0 Recommendations and Conclusion

Several recommendations may be of interest to the policymakers in T&T.

First, T&T can consider preferential trade with Africa, Central America, and South America. This point is made since the partial equilibrium model suggests that the preferential trade with the aforementioned regions has the potential to increase the net welfare for T&T. As previously mentioned, the net “welfare” considered only the potential increase in consumer surplus, the change in the tariff revenue, and the increase in imports. The partial equilibrium model does not consider non-tariff barriers to trade such as rules of origin, SPS measures, etc. Nevertheless, the partial equilibrium model does highlight a potential for the preferential trade to be beneficial for T&T in the right policy environment.

A second recommendation relates to the structure of the potential trade agreement. T&T can consider negotiating a partial scope trade agreement with the aforementioned regions. A full preferential trade agreement or a free trade agreement with the regions may not be possible without including its CARICOM neighbours. Additionally, the potential partial scope trade agreement will have to be reciprocal in nature in order to comply with WTO rules on non-discrimination. This is an important point that should be noted by policymakers since reciprocity will require T&T to also grant preferential access of its market to the trading partners.

T&T has strength in the production and export of a narrow range of goods. More specifically, T&T has a comparative advantage in SITC 11 (Beverages), SITC 33 (Petroleum, petroleum products and related materials), SITC 34 (Gas, natural and manufactured), SITC 51 (Organic chemicals), SITC 52 (Inorganic chemicals), SITC 56 (Fertilizers), and SITC 67 (Iron and steel). These products are also among T&T’s top exports. With the exception of SITC 11

(Beverages), the aforementioned products are derivatives of the country's endowments of crude oil and natural gas. Thus, T&T's trade is predominately factor endowment-based.

As previously mentioned, the products from the energy sector are not typically governed by trade agreements. Therefore, T&T does not need to sign any preferential trade agreement to encourage the export of crude oil and petroleum products, natural gas, organic chemicals, inorganic chemicals, fertilizers, and iron and steel.

Apart from the energy products, T&T seems to have some strength in the production and export of agro-processed products, beverages, and tobacco products. This is evidenced by agro-processed products (such as Cereals, Margarine and shortening, and Sugars) beverages, and tobacco products appearing among T&T's top exports to the African, South American, and Central American markets. Therefore, it would be rational for T&T to encourage the export of agro-processed products to these markets. Moreover, an attempt can be made to encourage the export of a wider range of agro-processed, beverages, and tobacco products to these markets. Therefore, this study recommends that T&T seek to negotiate for preferential access in the export of agro-processed products, beverages, and tobacco in the aforementioned regions. Furthermore, T&T can also consider negotiating for preferential access in manufactured goods which it may have niches. These preferences can help T&T develop strength in new niches.

Since the potential export products have been identified, the next logical thing is to identify the potential import products. Africa, Central America, and South America are known to have strength in the production and export of primary agricultural products. Therefore, it would be rational if the aforementioned regions seek preferential access to T&T's market to export primary agricultural products. From a reciprocated trade perspective, it may seem fair for T&T to grant preferential access to the aforementioned regions in primary agricultural products in exchange for preferential access to their markets in agro-processed products, beverages, tobacco, and perhaps manufactured goods. However, the import of competitively priced primary agriculture products would increase the competition for local farmers in T&T. This has the potential to weaken the local primary agriculture sector, a sector that is already minute and struggling to grow.

Fortunately, there are non-tariff measures that can be used to protect domestic industries from imports. More specifically, there are WTO provisions to deploy trade remedies such as antidumping duties, countervailing duties, and safeguards to protect domestic industries. These measures can be used when there are import surges, which may harm domestic industries. Therefore, the responsibility will lie on T&T to constantly monitor its trade flows, identify potential import surges, and deploy the appropriate trade remedies.

Therefore, this study recommends that the policymakers in T&T negotiate for trade remedies and trade defense mechanisms to be integrated into any potential partial scope trade agreement with Africa, Central America, and South America.

Notably, global value chains are used to produce goods. Countries often source inputs from foreign countries to help produce goods for export. This raises the issue of rules of origin and cumulation of origin. Given that T&T is a member of CARICOM, it would be rational for T&T to negotiate for cumulation of origin in inputs from CARICOM. This study recommends that T&T should also negotiate for cumulation of origin in inputs from all its other preferential trading partners. If this is successfully achieved, it can empower T&T to produce and export a wide variety of products to Africa, Central America, and South America.

Given that agro-processed and primary agricultural commodities may be considered for trade between the regions, food safety will emerge as an important issue. Africa is taking steps in developing SPS measures. Rigorous SPS measures presently do not exist in Central America, and South America. To protect domestic consumers, it would be rational for T&T to develop SPS measures. Therefore, this study recommends that T&T develops SPS measures before signing any trade agreement which covers primary agriculture and agro-processed products with the aforementioned regions. Then, T&T should negotiate to include these SPS measures in the partial scope trade agreement.

NOTES

1. The Singapore issues include non-discrimination, ways of preparing negotiated commitments, development provisions, exceptions and balance-of-payments safeguards, consultation and dispute settlement (WTO 2010).
2. A customs union is a form of economic integration whereby the countries in the union have decreased the tariffs and quotas on the goods traded between each other. They also impose a common external tariff upon all countries that are not part of the union.
3. A common market is a further stage of economic integration. Moreover, it is a customs union where there is free movement of labour between the members of the union.
4. CARIFORUM is an economic block consisting of CARICOM and the Dominican Republic. These countries negotiated collectively with the EU for the EPA.
5. The Caribbean Basin Initiative was launched in 1983 by the passing of the Caribbean Basin Economic Recovery Act (CBERA). Its scope was expanded by the Caribbean Basin Trade Partnership Act (CBTPA) of 2000, and by the Trade Act of 2002 (Oustr 2020).
6. CARIBCAN was launched in 1986.
7. Trade creation may result in a displacement of inefficient domestically produced goods with more efficiently produced imports. This frees the factors of production domestically, so that they may be used to produce more goods where the home country has a comparative advantage (Koumtingu ´ 2010).
8. Trade diversion is the shift in imports away from countries that are outside the preferential trading area to the member countries inside of the preferential trading area. It is considered trade diversion because it results in the imports from a more efficient supplier being replaced with imports from a less efficient supplier (Koumtingu ´ 2010).
9. The term “natural trading partners” arose from Wonnacott and Lutz (1989, 69) (Bhagwati and Panagariya 1996b, 5). While Lipsey (1960) did not use the term “natural trading partner” he was talking about the same thing.

10. This was the case in the Caribbean countries trade with the European market under the Lome Agreements. Lome was offered in conjunction with the sugar protocol, which granted high prices for the Caribbean countries export of sugar to the European market. Although the Caribbean countries sugar production was less efficient than Latin American sugar producers, the distorted prices made the sugar industry very profitable and it encouraged a high volume of exports from the Caribbean producers to the European market. After the formation of the WTO, and the loss of the banana disputes, the WTO ruled that one-way preferential treatment offered by the EU to the Caribbean producers had to end as it was discriminatory and not consistent with the WTO's rules on non-discrimination. This led to the eventual dismantling of the sugar protocol and the erosion in the trade preferences for the Caribbean sugar producers. Subsequently, the Caribbean countries sugar exports to the European market gradually declined.
11. The shale revolution is the increased production of both crude oil and natural gas in the United States from the shale geological plays (Charles et al. 2017). Shale is an impermeable rock. Traditionally, vertical drilling for hydrocarbons in shale plays resulted in low production wells. Subsequently, the recovery of hydrocarbons in shale plays were considered as unconventional. However, the application of seismic imaging technology, horizontal drilling, as well as hydraulic fracturing technologies in the shale plays by Devon Energy in the early 2000s resulted in high production wells. Many energy companies attempted to replicate the commercial success of Devon Energy in the Barnett Shale Play in the mid-2000s, resulting in a boom of shale oil and shale gas production. The subsequent boom is referred to the as the shale revolution.
12. The Treaty of Chaguaramas was signed in 1973 and it established CARICOM. The revised Treaty of Chaguaramas was signed in 2001. The CSME came into effect in 2006.
13. The WTO has two principles on non-discrimination. The first is the Most-favoured-nation (MFN) treatment, which prevents countries from discriminating among their trading partners. An exception is allowed if countries form a preferential trade agreement. Subsequent, lower tariffs can be extended to members of the preferential trading area, but the same tariff must be uniformly applied to all trading

partners that are not members of the preferential trading area. The other principle is national treatment, which requires foreigners and locals to be treated equally. In the context of a preferential trade area, national treatment requires the goods from the foreign importers to be faced with the same taxes, rules and regulations as local goods producers. The MFN is mentioned in Article 2 of the General Agreement on Tariff and Trade (GATT), and the national treatment is mentioned in Article 3 of GATT (WTO 2020).

14. During the 1970s when Lomé was signed, the European bloc was referred to as the European Economic Community (EEC).
15. There were 4 Lomé Agreements. Lomé I was signed in February 1975 in Lomé, Togo. It came in force in April 1976 and expired in 1980. Lomé II covered the January 1981 to February 1985 period. Lomé III covered the March 1985 to December 1990 period. Lomé IV covered the January 1990 to December 1999 period. Lomé IV was succeeded by the Cotonou Agreement, which was signed in 2000, and replaced by the Economic Partnership Agreement in December 2008.
16. In 1983, the US offered one-way preferential access of the US market to Caribbean countries through the Caribbean Basin Economic Recovery Act (CBERA). The preferential trade programme was called the Caribbean Basin Initiative. The CBI benefits were expanded through the enactment of the Caribbean Basin Trade Partnership Act (CBTPA) in 2000 (USTR 2020).
17. Under CARIBCAN, Canada offered one-way duty free access to the Canadian market to Commonwealth Caribbean countries. This programme started in June 15, 1986, prior to the formation of the WTO (CTRC 2008). Notably, the one-way preferential treatment offered to Commonwealth Caribbean countries is inconsistent with the WTO's rules on reciprocity. Subsequently, a special and differential treatment waiver is required from the WTO for Canada to continue to provide this preferential treatment to Commonwealth Caribbean countries.
18. According to AU (2019) over 75% of Africa's exports is comprised of primary agriculture commodities.
19. The Anti-Dumping Agreement recognizes 2 types of subsidies. The first is prohibited subsidies, which are specifically designed to distort international trade, and are therefore likely to hurt other countries'

trade. These subsidies can be challenged in the WTO's dispute settlement procedure. The second type of subsidies is referred to as actionable subsidies. Under this category, the complaining country has to demonstrate to the Dispute Settlement Body that the export country subsidies have an adverse effect on its interests. Otherwise the subsidies are permitted (WTO 2021c).

20. The sunset clause allowed the grey area measures to be phased out by 1999 (WTO 2021c).

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ABSTRACT

Trinidad and Tobago (T&T), has an affinity to liberalize its international trade through the use of preferential trade agreements. As the country aspires to reap more gains from trade, it can look towards new markets, such as Africa, Central America, and South America.

The objective of this study is to analyze T&T’s trade with Central America, South America, and Africa and determine if a possible new trade agreement is net welfare increasing for T&T.

This study used a partial equilibrium model to estimate the welfare effects of potential preferential trade agreements with Africa, Central America, and South America for T&T.

T&T has a comparative advantage and strength in the production and export of agro-processed products, beverages, and tobacco. T&T also has a comparative advantage in the production and export of energy-related products. However, energy-related products are not typically covered by trade agreements. Therefore, T&T may be interested in negotiating preferential access for agro-processed products, beverages, and tobacco to the aforementioned regions. Furthermore, T&T can also consider negotiating for preferential access in manufactured goods which it may have niches. These preferences can help T&T develop strength in new niches.

RESUMEN

Trinidad y Tobago (en adelante T&T), tiene afinidad por liberalizar su comercio internacional mediante el uso de acuerdos comerciales preferenciales. A medida que el país aspira a obtener más ganancias producto del comercio, puede mirar hacia nuevos mercados, como África, América Central y América del Sur.

El objetivo de este estudio es analizar el comercio de T&T con América Central, América del Sur y África y determinar si un posible nuevo acuerdo comercial está aumentando el bienestar neto de T&T.

Este estudio utilizó un modelo de equilibrio parcial para estimar los efectos sobre el bienestar de los posibles acuerdos comerciales preferenciales con África, América Central y América del Sur para Trinidad y Tobago.

Trinidad y Tobago posee una ventaja comparativa y fortaleza en la producción y exportación de productos agroprocesados, bebidas y tabaco. T&T también tiene una ventaja comparativa en la producción y exportación de productos relacionados con la energía. Sin embargo, los productos relacionados con la energía no suelen estar cubiertos por acuerdos comerciales. Por lo tanto, T&T puede estar interesado en negociar el acceso preferencial de productos agroprocesados, bebidas y tabaco a las regiones antes mencionadas. Además, T&T también puede considerar negociar el acceso preferencial a los productos manufacturados en los que puede tener nichos. Estas preferencias pueden ayudar a T&T a ganar fuerza en nuevos nichos.

RESUMO

Trindade e Tobago (doravante T&T), tem afinidade em liberalizar seu comércio internacional por meio do uso de acordos comerciais preferenciais. À medida que o país procure ter mais lucros com este comércio, pode buscar novos mercados, como a África, a América Central e a América do Sul.

O objetivo deste estudo é analisar o comércio de T&T com a América Central, a América do Sul e a África e determinar se um possível novo acordo comercial está aumentando o bem-estar líquido de T&T.

Este estudo utilizou um modelo de equilíbrio parcial para medir os efeitos sobre o bem-estar dos potenciais acordos comerciais preferenciais com a África, América Central e América do Sul para Trindade e Tobago.

Trindade e Tobago tem uma vantagem comparativa e força na produção e exportação de produtos agro processados, bebidas e tabaco. T&T também tem vantagem comparativa na produção e exportação de produtos relacionados com a energia. No entanto, os acordos comerciais, geralmente, não abrangem produtos relacionados à energia. Portanto, T&T pode estar interessada em negociar um acesso preferencial para produtos agro processados, bebidas e tabaco com as regiões mencionadas. Além disso, T&T também pode considerar negociar o acesso preferencial para produtos manufaturados onde possa ter nichos. Essas preferências podem ajudar a T&T a ganhar força em novos nichos.