1

Introduction and Overview: *Changes in Trade Regimes and the Commonwealth Caribbean*

The Uruguay Round (UR) finally reached a conclusion – at least insofar as most negotiating groups were concerned – at Marrakesh in April 1994. The agreement was ratified by a sufficient number of the legislatures of the participating countries that implementation began from the beginning of 1995. The effects of the UR on developing countries can be divided into market access effects, effects on trade-related issues such as investment and intellectual property rights, and trade regulation effects, including new rules for anti-dumping procedures, countervailing actions, safeguards and disputes settlements.

The Round was notable for extending multilateral trade negotiations in two directions, in terms of country participation and in terms of the extension of the subject matter for negotiation. As regards the first of these, a record number of countries took part, with the developing countries taking a vital role. Thirty-one new members joined GATT during the Round and many of them participated fully in it. For the developing countries, the Round marked their deeper integration into the world market system, their appreciation of their exposure to external economic and policy decisions, and their realisation that the GATT – or, now, the WTO – is the best means available for safeguarding their interests. The participation of the developing countries has had very significant effects. Some of the largest tariff reductions have been by Asian and Latin American countries.

The Round was also noteworthy for extending the bounds of negotiation to areas that had hitherto been considered the province of national governments. These include trade in services, which is generally regulated by national statutes, rules on foreign direct investment (FDI) and rules on the protection of intellectual property. The broadening of the GATT remit has already brought demands that the next round of negotiations should include trade-related aspects of environmental and labour policies.

There has also been a major initiative in the development of a pan-American free trade area (or Free Trade Area of the Americas). At the meeting in Miami in December, 1995 all the countries of the hemisphere (except Cuba which was not represented) agreed to aim for a pan-American free trade area within a decade.

This report mainly considers the market access effects in goods and services, though one needs to interpret trade effects to include also the impact of changes in trade regimes on flows of direct foreign investment. It considers only tangentially those aspects of the UR Final Act which do not relate directly to trade liberalisation – safeguards, anti-dumping actions, subsidies, trade-related intellectual property issues (TRIPs) or dispute settlement procedures. These areas could be of considerable importance – and benefit – to the Commonwealth Caribbean countries, particularly insofar as the discretion of the developed market economies (DMEs) as regards 'contingent' protection (i.e. the use of safeguards, anti-dumping or countervailing actions for protective purposes) has been constrained and disputes procedures are improved. These areas merit a further detailed study.

In very general terms, one might expect the direct trade effects to be generally negative for the developing countries since the UR tariff cuts effectively reduce the tariff preferences of the Generalized System of Preferences (GSP), the Lomé Convention and the Caribbean Basin Initiative (CBI). These arrangements are discussed in Chapter III of the report, Chapter II consisting of an overview of the export structure and markets of the Commonwealth Caribbean countries.

One area of significance to Caribbean trade flows will stem from the UR effects of the agreement on temperate agricultural products, in particular through reducing the prices the EU pays on specific quotas of imports of sugar and rice from certain Caribbean countries. Also by raising world prices of temperate agricultural commodities, the agreement will also affect the external accounts and economic welfare of food-importing countries. Many developing countries have argued that any positive results that emerge from the UR agreement will be outweighed by the higher food costs that the agriculture settlement implies. This is discussed in Chapter IV of the report.

The new EU banana regime is of crucial importance to the Caribbean exports, threatening in particular the industry in the Windward Islands. This is not strictly a UR matter, though it has been the subject of a GATT panel report and has led to the EU asking for and being granted a waiver for all the Lomé trade concessions. Also, the details of the regime were intended to be consonant with the letter if not the spirit of the UR. Furthermore, the tariff rates must be reduced over the implementation period to meet the agricultural component of the UR agreement. Thus, it is appropriate to examine the impact on the regime in this report. This is mainly done in Appendix A.

As regards manufactures, the main UR impact will operate through the loss in preferential tariff margins which the Caribbean countries enjoy as signatories of the Lomé Convention, as beneficiaries under the US Caribbean Basin Initiative (CBI) and the similar CARIBCAN arrangements and, among other OECD importers, under their respective GSP schemes. The textile and apparel sector merits special attention owing to the gradual elimination of the MultiFibre Arrangement (MFA). The bulk of Commonwealth Caribbean manufactured exports take the form of apparel and are directed at the US market. In Jamaica's case, these are subjected to bilaterally-negotiated MFA quotas except where they enter the US under the specific regulations appropriate to 807A goods, those assembled from textiles formed and cut in the US. In that case, tariffs are only payable on the value added in the Caribbean country but quantities are constrained by the GALs – Guaranteed Access Levels. In both cases the UR could have significant effects. As MFA quotas are phased out, Caribbean exports will have to face acute competition from low-cost producers in Asia. In the case of the 807A goods, the CBI advantage will be further diluted by lower MFN tariffs. The UR effects on textile products are analysed in Chapter IV.

The North American Free Trade Agreement (NAFTA) will give Mexico a preferential edge vis-à-vis the Caribbean on the US and Canadian markets, though there will also be lesser effects from the advantaged position of the US and Canada on their partner markets. The threat from NAFTA stems from the size of the tariff preferences which Mexico will receive, the similarities between the patterns of Mexican and Caribbean exports and the important share of North America in Caribbean exports.

The most immediate threat is in apparel. MFA quotas on Mexican exports to the US and Canada will be eliminated within five years. True, quotas on Caribbean exports will also be phased out in accordance with the UR but that process will be spread over ten years. The threat to the Commonwealth Caribbean countries is that, rather than benefit from the phasing out of MFA quotas, they will lose existing market share to the low-cost producers of Asia. Furthermore, as a result of the NAFTA, Mexican exports will retain substantial tariff preferences in this area.

The situation with 807A products is particularly important for Jamaica, not least because of the substantial FDI that has taken place in the external processing zones (EPZs) to exploit this advantage. Competitive Mexican products will in time enjoy tariff-free access to the other

NAFTA members, whereas the CBI exports will continue to be liable to duty on the value added in assembly – generally about 25 per cent. Mexican exports will also have advantages in that their quotas will be phased out faster than on those affecting the Caribbean.

While the report concentrates its quantitative efforts on the trade implications of the UR and NAFTA, the implications of the latter for foreign direct investment will be important, less because NAFTA incorporates a new regime for investment across the member states, though it does that, than for reasons of economies of scale, security and confidence (see Section IV c.). Other UR effects will stem from liberalisation of import barriers by the Caribbean countries themselves and the barriers facing Caribbean exports to other developing countries. CARICOM established a timetable for reducing tariffs before and independently of the UR requirements. However, to some degree, it must be considered as an outcome of the liberalisation process which was sanctified and accelerated by the UR. Individual Commonwealth Caribbean countries have gone far in reducing their import barriers to the CARICOM common external tariff (CET) level and a number have set out timetables for the achieving this goal. Again this can be considered part of the multilateral process, though in a number of cases Structural Adjustment Programmes established with the Bretton Woods institutions have played a major role.

In addition to the conceptual difficulties of defining a UR effect from the general trend towards liberalisation that preceded the Round and which has, in a number of countries, taken the form of removing tariff, quantitative and regulatory import barriers, there are the practical difficulties of assessing the effects of thousands of changes in import barriers, often individually minor but collectively important to different sectors.

Potentially the UR could have important consequences for the Caribbean through the General Agreement on Trade in Services (GATS). The United States insisted from the beginning that the Round dealt comprehensively with opening up services markets – with a view to benefit US providers. To the extent that access in these sectors is restricted, it is mainly through government regulations or limits (which include total prohibition) on foreign suppliers. "For this reason, the negotiations quickly went into areas of within-country regulations and rules on investment which go beyond the boundaries, even after this Round, of international regulation of trade in goods" (Page and Davenport, 1994).

Most of the Caribbean's current services exports – tourism, transport, maritime services, data processing – take place in the exporting country and are not particularly constrained by non-tariff barriers in the importing countries. An exception is air transport which is particularly subject to regulatory constraints, not only by other governments but also at the international level. In one area of particular concern, maritime services, negotiations on how a GATS would operate are still under way. Trade in services in general and the likely implications of both the UR and NAFTA are examined in Chapter V, while maritime services in particular are considered in greater detail in Appendix B.

This report is designed as a background to policy discussion and decision-making in the trade and sectoral fields, rather than a comprehensive impact study of the UR or NAFTA. Thus, certain trade effects are consciously left aside. The report does not consider the added bonus of any quickening of world growth rates which might stem from the UR or NAFTA. These are both speculative and controversial and have limited implications for the trade policy of the Commonwealth Caribbean countries which is the real focus of this report.

The future shape of NAFTA will likely develop both through widening – the progressive inclusion of Central, South American and, possibly, Caribbean, countries in the free-trade area – and deepening – the elimination of non-tariff barriers (NTBs) on merchandise and services trade and labour movements. Working groups are currently studying a number of issues ranging from the harmonisation of laws on competition, through policies on regulation, indirect taxation and exchange rates, to mutual recognition of professional and technical qualifications. The deepening of NAFTA implies that when the club is opened for new membership, the admission fee in terms of policy and legal adaptation will be considerably higher. The uncertainties associated with the future development of NAFTA and the scope within which developments could feasibly occur mean that it is impossible in this report to envisage the full range of costs and benefits to membership at some future stage. The cost of joining could be tariff-free access to imports from the EU as well as from NAFTA members.

The response of the Commonwealth Caribbean to the threats to trade deriving from the UR and NAFTA must involve both political economy and industrial economics. The governments of the Commonwealth Caribbean countries should seek better terms of access for their agricultural products – including sugar, rum, bananas and temperate agricultural products – in the European Union through the Mid-term Review of Lomé IV which is now under way. They could benefit from NAFTA-parity – that is parity with Mexican access terms to the United States and Canada – for their exports of apparel and other products, even where they do not presently export them in substantial quantities. Whether there is a case for restricting negotiations to 807A products is a question of tactics, and outside the scope of this paper.

The heads of government of the CARICOM member states have taken the lead in establishing the Association of Caribbean States (ACS). This will provide a framework for widening trade and other forms of economic co-operation on the basis of reciprocity – both bilaterally and multilaterally. Bilateral agreements have already been established between CARICOM and Venezuela and CARICOM and Colombia.

This report comes down fair-and-square in favour of NAFTA membership as the ultimate goal. Membership could entail some loss as regards Lomé IV, though the exact terms of the Convention are open to different interpretations. The report assesses the costs and benefits, not entirely quantifiably because that is impossible given the uncertainties of the evolution of both NAFTA and successor Conventions to Lomé IV. The outcome is unequivocally that the long-term interests of the Commonwealth Caribbean countries lie with North and, in time, the Americas as a whole.