

Trade Effects of the Uruguay Round and NAFTA: *Merchandise*

Uruguay Round Effects on Exports

Agricultural goods

Effects on prices of temperate agricultural goods

Protection of their domestic farmers by the western industrialised countries has resulted in major distortions in the world markets for temperate agricultural products – meat, dairy products and cereals. Because they are competitive with goods produced in those countries, this has also been true of a number of products that might have been considered as being in the comparative advantage of the developing countries, including sugar. Guaranteed prices and non-tariff barriers restricting imports have greatly increased output in the DMEs and the excess output has largely been sold on world markets at whatever price could be realised. Countries which were traditionally importers of these products have become exporters and world prices have been significantly reduced.

The agricultural policies of the developed countries have had adverse and far-reaching effects on the developing countries. Low world prices have discouraged domestic production. Exports have been undermined by subsidised produce from Europe and North America. In some cases, traditional patterns of production and trade have been subverted.

The principal features of the agreement in agriculture are:

- ❖ the tariffication of non-tariff border barriers. Initially the tariffs will provide substantially the same level of protection but they are to be reduced by an average 36 per cent with a minimum reduction of 15 per cent for each tariff line over six years, or by 24 per cent over 10 years for developing countries;

- ❖ domestic support to the agricultural sector is to be reduced by 20 per cent over the same period, or 13.3 per cent for developing countries, subject to a number of exclusions. These include de minimis provisions below which the rules do not apply – where imports are less than 5 per cent of production, 10 per cent in the case of developing countries – measures deemed to have minimal trade-distorting effects, including environmental payments and general agricultural development services, and deficiency payments (decoupled from production decisions);
- ❖ export subsidies are to be reduced to a level 36 per cent below the 1986-90 base and the quantity of subsidised exports by 21 per cent, both over the same implementation period.

The instruments to be phased out include price-support policies, income-support policies linked to production, or other subsidies discriminating against imports. Those to be bound in the GATT sense and subject to negotiated reductions include investment grants and subsidised loans. Income-support policies not linked to output, environmental programmes and domestic food aid would be permitted. Table 7 gives the tariff equivalents of reductions offered by the developed countries by product group, calculated by the participants with the agreed formulae.

The package is likely to have modest inflationary effects on world prices and the pattern of trade in those goods where protection among the western industrialised countries has been substantial – grains, in particular wheat, but also rice and coarse grains, red meats (beef, sheep

meat and pig meat), dairy products and sugar. The agreement will lead to a reduction in exports of these products by the western countries.

The developing countries will be also affected through their own obligations under the agreement. These are limited by special provisions. For example, the minimum reductions in subsidies and tariffs are spread out over ten rather than six years and the depth of the cuts is lessened. Reductions in export subsidies are to be two-thirds those applying to the developed countries. In all cases, trade barriers, domestic support measures and export subsidies are closely defined.

There has been little consensus about the effects of the UR package on trade in temperate agricultural goods (see Page *et al*, 1994). This is partly because there are major problems in assigning specific liberalisation moves to the UR. The 1992 CAP reform was partly undertaken in order to anticipate some of the likely requirements of a UR agreement. But there was, in any event, considerable budgetary pressure for reform. Clearly, it is impossible to attribute a specific share to the UR. Page and Davenport (1994) simulated the full Final Act requirements in co-operation with the OECD and using the OECD RUNS (Rural-Urban North-South) model, even though in many cases, not only in the EU but also in the US and many developing countries, those requirements were largely already implemented.

The price changes derived from the simulation were as follows:

	%
❖ wheat	3.6
❖ rice	0.9
❖ coarse grain	1.9
❖ sugar	7.9
❖ beef, veal and sheep	3.7
❖ other meats	0.5

These are the final, steady state, effects. They measure the differences between the projected price levels without the UR with those taking account of the Round – after all the lags have

Table 7: Tariff and tariff-equivalent reductions by developed economies on agricultural products (US\$m. and per cent)

Product categories	Value of imports US\$ m.	per cent reduction in tariffs %
Coffee, tea, cocoa, sugar etc.	13,634	34
Fruits and vegetables	14,575	36
Oilseeds, fats and oils	12,584	40
Other agricultural products	15,585	48
Animals and products	9,596	32
Beverages and spirits	6,608	39
Flowers, plants, vegetable materials	1,945	48
Tobacco	3,086	36
Grains	5,310	39
Dairy products	1,317	26
All agricultural products	84,240	37

Source: GATT (1994)

worked out. In general the developing countries experience real net export increases from the higher prices they receive from exports; or because they have to pay more for imported foods. Most are net food importing countries so these net export increases are largely the result of lower food imports because of higher world prices. Thus, there may be significant losses in economic welfare.

Sugar and rum

In addition to the effects of the overall changes in world prices and trade flows, Caribbean exports will be harmed by the erosion of the complex set of preferences on temperate agricultural products. Of these, the most important is the sugar protocol under which the EU has agreed to buy specific quantities of sugar from particular countries each year through the duration of the Lomé IV Convention. The price at which these quantities are bought is not laid down in the Convention but it has always followed the CAP's own target price. In sugar, the main beneficiaries include Guyana and Jamaica.

Table 8: The contribution of sugar and molasses to GDP, employment and exports in certain Commonwealth Caribbean countries, 1993 per cent

country	sugar expts. as % agric. prod n	sugar exports as % GDP	sugar/ molasses % agric. exports	sugar/ molasses % dom. exports(a)	employ't in sugar as % working population
Barbados	32	1	95.3	17.0	5
Belize	69	10	57.40	37.22	13
Guyana	66	11	65.56	28.59	13
Jamaica	35	3	37.17	8.82	4
Trinidad	5	1	15.71	1.91	5

(a) domestic exports, i.e. excluding re-exports

Source: Sugar Industry Authority of Jamaica

In 1992, the Commonwealth Caribbean countries exported some 539,000 tonnes of sugar to the EU and US markets combined, slightly above their combined quotas, as opposed to earlier years when exports tended to be somewhat below quota. A fall in the price received for sugar of about 8 per cent would be seriously damaging to Barbados, Belize, Guyana and Jamaica. Some indication of the importance of sugar, and sugar exports, to these economies is given in Table 8. EU and US quotas are shown in Appendix Table 6. The fact that exports exceed quotas by small amounts may merely reflect the fact that there is some year-to-year flexibility built into the EC regime. In the case of Belize, the significant amount of over-quota exports is only possible because of shipments through the Netherlands Antilles.

Because of certain special features of the CAP regime in agriculture, together with the fact that, after Cuba, the EU is the world's largest sugar exporter, any substantial effects of the UR agreement on the EU domestic sugar price, EU subsidised exports and thus the world sugar price, will be delayed, probably till 1999 or 2000:

- ❖ the imports safeguards provision which permits additional tariffs in the event of a major reduction in import prices compared with the base period. In the case of the EU, the reference price is based on the artificially high price of imported ACP sugar since there have been effectively no other imports. Thus, at any plausible world prices, these tariffs will be sufficient to

prevent any forced reduction in the intervention price as a result of tariffication and the scheduled reductions in tariffs (Woodward, 1994, pp.21-24). However, in principle, the right to impose these safeguard tariffs expires at the end of 2000;

- ❖ the targets for reducing the volumes of subsidised EU sugar exports will be radically eased by the admission of three new sugar deficit members and rising EU consumption;
- ❖ the flexible implementation over the six years of the reductions in the volumes of subsidised exports and expenditures on export subsidies means that, if, as is likely, the Commission decides to play by ear in setting year by year the intervention price and the levels of the A and B sugar output quotas, it may be able to avoid any significant cuts in these till 1999 (when the terminal targets have to be met) (Woodward 1994, pp.24-25).

Nevertheless the eventual effects on the world sugar price -though they could be delayed until 1999 and 2000 – could be greater for sugar than for other temperate commodities. As long as the price paid for ACP sugar remains tied to the EU intervention price, the ACP sugar producers will experience cuts in their export earnings. On the other hand, the rise in world prices may allow certain ACP producers, including Jamaica (see paragraph 4 of VII Policy

Table 9: Estimates of Uruguay Round effects on Caribbean trade in temperate products, US\$ m. and %

	net exports (a), \$ m, av. 1990-92			UR effect, change in net expts. \$ m			total	Net exports, total \$ m.	
	meat/ dairy	grain/ oil seeds	sugar	meat/dairy dairy	grain/ oil seeds	sugar		pre-UR	post-UR
Commonwealth Countries									
Barbados	-30	-23	33	-2	-1	-2	-5	-20	-25
Belize	-10	-8	44	-1	0	-2	-3	26	23
Grenada	-9	-4	-2	-1	0	0	-1	-15	-16
Guyana	-8	11	98	0	-1	-11	-12	101	89
Jamaica	-62	-96	66	-3	-2	-7	-12	-92	-105
Trinidad	-58	-71	29	-3	-2	-2	-7	-100	-107
total	-177	-191	268	-10	-6	-25	-41	-101	-141
Non-Commonwealth Countries									
Domin. Rep.	-26	-122	142	-2	-3	6	1	-6	-6
Haiti	-23	-101	-24	-1	-3	-2	-6	-148	-154
Surinam	-8	13	-4	0	-2	0	-2	1	-2
total	-234	-401	382	-14	-14	-21	-49	-253	-30

(a) live animals excluded as data insufficient

(b) the following states were omitted from the calculations owing to lack of data: Antigua and Barbuda, Bahamas, Dominica, St. Kitts and Nevis, St. Lucia and St. Vincent and the Grenadines

Note: totals may not add up owing to rounding

Source: data from FAO SOFATS databank; for methodology see text.

Options), to sell profitably on the world market.

The estimates of the effects of the UR do not include any trade diversion against the Caribbean producers of rum. The major producers are the Bahamas, Guyana, Jamaica, and Trinidad and Tobago. These countries benefit from the rum protocol under the Lomé Convention, which gives them duty free access to the EU for a restricted quantity until the end of 1995. The Commission has made proposals restricting the application of duty-free quotas to dark rum, while other rums will enjoy tariff-free access to the EU as do other manufactures. This, however, is not a UR effect.

The more quickly the rum protocol, and with it all restrictions on duty-free access, is phased out the better for the Caribbean producers. The extra preferences could be used to further expand the ACP rum industry and increase its efficiency

through which its competitiveness in world markets would be improved.

Rice

Annex XL of Lomé IV – as did earlier Lomé Conventions – allows for preferential treatment of rice imports into the EU from particular ACP States, limited by a tariff quota. The third country levy is reduced by 50 per cent and Ecu 0.36 for paddy and husked rice, by 50 per cent and Ecu 0.54 for wholly milled rice and by 50 per cent and Ecu 0.30 for broken rice. In principle, the tariffication of levies will mean that the first and most significant part of this preference – the reduction in levies by 50 per cent – is lost. In practice, for this report, it is assumed that the preferences of the ACP producers are adjusted in such a way as to prevent any trade diversion in

their favour or in favour of third country producers.

The ACP rice producers will however still experience a price effect on their exports to the EU. At present they receive a price roughly halfway between the world price and the CAP intervention price. The UR agreement is likely to leave the world price largely unaffected but there will be a significant fall in the EU price as border protection and internal subsidies are reduced. This report assumes a fall in the EU price of 20 per cent relative to the world price, or 19 per cent in absolute terms and a reduction in the prices received by ACP producers of 9.5 per cent on the quantity exported to the EU in the UR base period, 1986-88.

Estimates of the trade effects of the liberalisation of temperate agriculture are shown in Table 9. These are obtained by applying the regional supply demand balance effects of the model simulation to the Commonwealth Caribbean countries and adding in the Lomé sugar and rice effects. They assume a reduction in the price of ACP sugar protocol exports of 11 per cent⁶. The final UR per centage effects are applied to average 1990-92 trade flows to indicate their relative magnitude. Net Commonwealth Caribbean exports are seen to worsen by some \$40 million, largely owing to the fall in the price of protocol sugar supplied to the EU, with Jamaica and Guyana suffering the most.

Bananas

As was seen from Table 5 almost all Commonwealth Caribbean banana exports go to the EU. They are not price-competitive on other OECD markets. There is nothing in the UR or NAFTA to change that. As was explained earlier, the new EU banana regime cannot really be interpreted as a GATT UR effect. Further technical discussion of the issue appears in Appendix A. The 20 per cent reduction from Ecu 850 per tonne to Ecu 680 per tonne in the EU tariff on above-quota imports from non-ACP

sources is a Uruguay Round effect but these tariffs will still be prohibitive. The tariff on within-quota imports of dollar bananas is Ecu 75 per tonne and that will not be affected by the Uruguay Round.

Here it is worth pointing out that, on the basis of two years' experience with the new regime, the outlook for the banana sector in, at least, the Windward Islands looks gloomy. Producer prices have been under pressure with the integration of the EU market and competition from dollar bananas. In 1993 farmer incomes were further depressed by the steep depreciation of the pound against the Eastern Caribbean dollar (which is tied to the United States dollar), only now (March 1995) being reversed. The problems led to a strike and halt to harvesting in St. Lucia. The farmers blamed Geest, the marketing agent, the government and the local Banana Growers Association, which runs an insurance scheme for farmers' incomes which it could no longer honour (*Courier* 148, November-December, 1994, 25).

Over 1993 as a whole St. Lucia's banana receipts fell by over 25 per cent. But for the tropical storm, Debbie, in late 1994, the situation for the farmers might have improved, largely owing to extensive producer subsidies. WINBAN, the old lobby for the Windward Islands' producers, has been replaced by a commercial firm, WIBDECO, owned jointly by the respective governments and the growers' associations, which is responsible for negotiating with Geest. This has improved prices for farmers, but margins can never be squeezed sufficiently – even with WIBDECO itself going into marketing – to resolve the problem of the lack of competitiveness of the Windwards. Improving yields – 10 tonnes per acre up from the present 7 tonnes is the goal – and concentration of production on the most productive farms will help. Diversification into other crops will help make up income shortfalls. Still, it is difficult to see the industry survive without continued heavy extensive subsidisation, imposing eventually intolerable strains on public finances.

Table 10: Tropical products and fish: OECD pre-and post-UR MFN rates, pre-UR GSP rates and post-UR GSP rate assumptions, weighted averages, %

		coffee beans	cocoa beans	tobacco	oil seeds/ oils	other trop.	fish
EU MFN	pre-UR	5.0	3.0	22.5	8.0	7.6	14.0
	post-UR	-	-	17.8	5.1	4.2	12.0
EU GSP	pre-UR	4.5	-	22.2	2.5	6.0	10.6
	post-UR	-	-	17.8	2.5	4.2	10.6
other OECD MFN	pre-UR	-	-	10.0	4.0	9.0	3.7
	post-UR	-	-	5.0	2	5.7	1.1
other OECD GSP	pre-UR	-	-	-	1.0	0.5	-
	post-UR	-	-	-	1.0	0.5	-

Source: Various national tariff schedules and UR offer, GATT (1994)

Tropical products and fish

Coffee and cocoa alone account for about three-quarters of the value of imports from the developing countries of the products covered in the EU's offer. However, these products are of limited interest to the Commonwealth Caribbean countries. Most western industrialised countries allow tariff-free imports of tropical beverage crops – at least in their unprocessed state – but the EU has until now maintained tariffs on coffee and cocoa beans, though not on tea, to protect the preference margin of the ACP States. The UR Mid-Term offer reduced the MFN tariffs on coffee beans from 5 per cent to 3 per cent and eliminated the GSP rate which had been at 4.5 per cent. These changes were implemented in 1991. The rate on cocoa beans was already at 3 per cent. The final offers bring the EU rates on coffee and cocoa beans down to zero. Table 10 shows the other pre- and post-Uruguay Round MFN and GSP tariffs⁷.

Changes in the preferential tariff rates and GSP utilisation rates were used to estimate trade diversion from the ACP States and the other developing countries in favour of the MFN suppliers as well as calculating the changes in world prices and the after-tariff prices received by the different exporter groups on different markets⁸.

Other goods

In order to assess the magnitude of the effects of the loss of tariff preference on exports outside of temperate agriculture and textiles and apparel, partial equilibrium analysis was used. Partial equilibrium analysis is unable to cope with changes in factor prices and the reallocation of factors of production. Its strength lies in its ability to grasp complex details of trade regimes and look at the direct effects of changes in those regimes on prices and trade flows. Certain primary products, e.g. non-ferrous ores and pig iron, are excluded as, with zero MFN tariffs, developing countries enjoy no tariff preferences.

The MFN tariff cuts for each product group were calculated as the final EU offer averages, weighted by the shares of ACP exports to the EU, except in the case of manufactures where the very large number of tariff-lines warranted the use of simple averages. In these calculations the assumption is that the ACP States made full use of the preferences given under the Lomé Convention.

To a large extent, the principal competition for the Commonwealth Caribbean countries comes from other developing countries which themselves enjoy tariff and other preferences through the GSP. It was assumed that, where the MFN rate goes to zero or the new MFN rate will be below the present GSP rate, the GSP on those

goods is effectively withdrawn, and where the new MFN rates are greater than the old GSP rates, the GSP rates are unchanged (see Table 10). In fact, the only sectors where different assumptions are possible, i.e. where either the GSP rate is not already at zero or where the MFN rate is not going to zero, are other tropical products, other non-CAP agricultural products and fish. These sectors account for less than 10 per cent of ACP exports to the EU and so small changes in assumptions on future GSP tariffs would not greatly affect the overall results⁹. The sectors identified in the table cover less than half of the ACP exports to the EU. The balance is either in CAP goods, treated separately, or in sectors where MFN tariffs are zero, such as ores and many other raw materials.

The elasticities of export supply and EU import demand were derived from the literature, in particular, Bond (1983), Davenport (1988), Islam and Subramian (1989), Rollet (1983) and Valdes and Zietz (1980). The elasticities of substitution were judged on the basis of the homogeneity of products among the different groups of suppliers, the ACP States, the other developing countries and, where relevant, the industrialised countries (see Laird and Yates, 1990). The figure for manufactures derives from Cline *et al.* (1978).

Non-CAP agricultural goods

Under Annex XL to Lomé IV a number of ACP products, which in principle are competitive with goods produced under a CAP regime, are given special access to the EU. The preference takes the form of exemption from customs duties (oilseeds and cake), reduction in the variable levy (manioc, arrowroot), progressive abolition of the tariff during the EU off-season though subject to a tariff quota (oranges, mandarins), exemption from customs duties though not the levy (most other fruits), exemption from fixed component of levy (all processed agricultural goods).

Some of these preferences may be significant, others much less so. The customs duty or the fixed component of the levy is typically a small percentage of the total and exemption from it may be of limited value. But in the case of oilseed and oilcake, customs duties are the only form of EU protection so exemption may be quite significant. It is also important to note that these preferences are exclusive to the ACP, unlike preferences in manufactures which are shared by GSP beneficiaries (except in the case of apparel and textiles).

However, in terms of the value of Commonwealth Caribbean countries' exports to the EU, these preferences only apply to a very small share of total exports (see Appendix Table

Table 11: MFN tariff reductions offered by the developed countries by industrial products group (excluding petroleum), \$ billions, and %

Product category	Imports from devel. countries	Average tariff		
		Pre-	Post-	Reduction
All prods. exc. petrol	736.9	6.3	3.9	38.0
Textiles and clothing	66.4	15.5	12.1	22.0
Metals	69.4	3.7	1.5	59.0
Minerals, precious stones, metals	72.9	2.3	1.1	52.0
Electric machinery	86.0	6.6	3.5	47.0
Leather, rubber, footwear, travel goods	31.7	8.9	7.3	18.0
Wood, pulp, paper and furniture	40.6	3.5	1.1	69.0
Non-electric machinery	118.1	4.8	2.0	58.0
Chemicals and photo. supplies	61.0	6.7	3.9	42.0
Transport equipment	96.3	7.5	5.8	23.0
Manufactures (<i>not elsewhere stated</i>)	76.1	5.5	2.4	56.0

Source: GATT (1994)

7). The criterion for inclusion in the table was that exports to the EU under the four-digit Harmonised System tariff line had to account for at least 0.1 per cent of total merchandise exports. In the case of Jamaica, the total of these products in absolute terms amounts to over Ecu 9 mn but they only comprised 0.7 per cent of Jamaican exports in 1992. In the case of Antigua and Barbuda, they constituted almost 0.5 per cent of total exports. Interestingly, the main products in that case were oilcake of soya, rape and coconut. The first two are by no means traditional or even tropical products. They possibly indicate some preference-chasing initiatives.

The effects of the UR on these trade flows are likely to be modest. For the goods in question the preferences probably average some 50 per cent of tariffs or tariff-equivalents. As tariffs are reduced by some 30 per cent, there will be some loss in the value of the preferences. It is the absolute value of the preference that determines whether and to what extent the beneficiary country can compete with the non-beneficiaries. The tariff cuts will reduce the economic rent transferred to the Caribbean producers but is unlikely to render the EU market unprofitable, particularly as they have six years to adjust through improved competitiveness. Even if there is some loss of markets, in terms of Commonwealth Caribbean exports the amounts involved are of necessity very small.

Industrial goods

The main MFN tariff reductions that emerge for the Round are summarised in Table 11. On average MFN tariffs are reduced by a sizeable 38 per cent. However, the data support the contention that the higher the tariff rates the smaller proportionately the reduction. Textiles and apparel, leather, rubber, footwear and travel goods and transport equipment all have well above average pre-Uruguay Round tariffs rates and all will experience below average proportionate cuts. But the case is less clear as regards tariff reductions in absolute terms and it is these that determine the amounts of trade creation

and trade diversion.

The highest pre-UR tariffs are applied to textiles and apparel. This is also the sector where the quantitative limitation of trade through the MFA, agreed under GATT, has become pervasive. The gradual dismantling of the MFA will go further than the tariff cuts to open the markets of the western industrialised countries to exports from the developing countries. The GATT Secretariat has calculated that the per centage reduction in developed country tariffs on industrial goods vis-à-vis the developed countries, weighted by their export mix, averages out at 38 per cent as against 37 per cent for developing country exports and 34 per cent for exports from the Least Developed Countries (GATT, 1994). However, the Secretariat argues that a more realistic picture is given if textiles and apparel are excluded, because tariff reductions alone ignore the gains in market access from the phasing out of the MFA. When textiles and apparel and fish and fish products are excluded the per centage reductions in tariffs are 44, 51 and 59 respectively. No reason is advanced to justify the exclusion of fish.

Textiles and apparel

Table 12 shows the shares of apparel exports in exports of different Commonwealth Caribbean countries to the OECD. Overall, clothing as a proportion of exports to the OECD ranges from effectively zero for the Bahamas to 26 per cent in Jamaica's case. It is also clear that most of these exports are directed towards Canada and the United States. For Mexico, exports are much larger in dollar terms – some three times the Commonwealth Caribbean total – but smaller in terms of the share of total exports.

Textiles and apparel, or at least exports of these from the developing countries to the DMEs, have for many years been exempt from the normal GATT rules and trade, and have been managed through a complex web of bilateral quotas under the general umbrella of the MultiFibre Arrangement¹⁰. The Commonwealth Caribbean

Table 12: **Apparel as a share of total exports to different OECD markets, average 1991-1992, % and \$ m.**

Country	US	EU	Canada	Total OECD	Apparel exports, 1991-92	
					\$m. US/Canada	Total
Antigua	0.0	0.2	14.4	1.9	0.3	0.3
The Bahamas	0.0	0.0	0.0	0.0	0.1	0.1
Barbados	23.8	0.1	0.4	9.0	7.6	7.7
Belize	33.6	0.1	5.5	16.5	18.9	19.0
Dominica	0.3	0.1	6.8	0.4	0.2	0.2
Grenada	2.8	0.1	3.1	1.5	0.3	0.3
Guyana	3.4	0.0	2.7	1.5	4.3	4.3
Jamaica	41.3	1.2	19.8	26.1	317.2	320.9
St. Lucia	75.7	0.0	14.2	15.9	20.2	20.3
St. Vincent and the Grenadines	55.6	0.0	0.2	3.8	3.5	3.5
Trinidad and Tobago	0.2	0.0	0.0	0.1	1.5	1.6
Mexico	2.9	0.4	0.5	2.4	987.6	1,000.4

Source: OECD trade databank

countries, as ACP States, have not had to face MFA quotas on their exports to the European Union. On the US market, through the CBI, they have been given special access terms for apparel assembled from US-formed and -cut fabric.

The elimination of the MFA over the next ten years will gradually erode ACP preferences for textiles and apparel exports to the EU. However, only a few ACP States have been able to take advantage of the preferences in the EU market and move into the production of textiles and apparel. From now on the phasing out of the MFA will have a negative impact on investment in the industry in the ACP countries who will find their major advantage on the EU market eroded.

The Commonwealth Caribbean countries do not take much advantage of the absence of quotas and tariffs on exports to the EU. The share of those exports is very small (Table 12). Among the Commonwealth Caribbean countries only Jamaica has gained a significant foothold in the EU market and that in a fairly small way. Rather, these countries, and other countries in the Caribbean, have built up exports to the United States and Canada where they are subject to MFA quotas, or in the case of 807A goods, GALs. Ideally, the elimination of quotas would mean a major expansion of

exports to North America. In practice this is most unlikely to happen.

Certain countries, presently quota-constrained, have clear labour-cost advantages, large labour supplies, experience and appropriate institutions for marketing and good transport arrangements to the market economies. The most threatening are China and India, and potentially Pakistan and Vietnam. They will react to quota relaxation over the transition period without supply or competitiveness limits. Some of the earlier large-scale low-cost producers, Hong Kong, Taiwan, South Korea, now find themselves less competitive because of higher labour costs. They are now investing in or subcontracting supplies from China and Africa and indeed the Caribbean. However, in the case of the Caribbean, which in this context means primarily Jamaica, the investment is generated mainly by the advantageous tariff-treatment of 807A products on the US market.

Page and Davenport (1994) take 2 per cent to 5 per cent per year as the plausible range in which developing countries' exports of textiles and apparel could grow with the gradual phasing out of quotas over the transition period, that is from the beginning of 1995 to the end of 2004¹¹. If Jamaica were able to retain its share of develop-

Table 13: Estimates of Uruguay Round export revenue effects, \$ m. and per cent of 1990-1993 exports

	temperate agric prdts	tropical prdts/fish	textiles clothing	other indust.	total	share of exports % (a)
Antigua	0	0	0	-0.1	-0.1	-0.7
The Bahamas	0	0	0	-31.9	-31.9	-3.3
Barbados	-5.1	0	-0.7	-1.8	-7.6	-9.0
Belize	-2.4	-0.1	-1.7	-0.6	-4.8	-4.2
Dominica	0	0	0	-0.2	-0.3	-0.5
Grenada	-0.8	-0.2	0	-0.3	-1.3	-5.9
Guyana	-10.4	-0.1	-0.4	-2.5	-13.4	-4.6
Jamaica	-13.7	-1.2	-28.6	-19.3	-62.5	-5.1
St. Lucia	0	0	-1.8	-0.6	-2.5	-1.9
St. Vincent and the Grenadines	0	-0.7	-0.3	-0.5	-1.6	-1.7
Trinidad	-9.7	-0.6	-0.1	-13.6	-24.0	-2.2
all countries	-42.1	-3.2	-33.7	-71.4	-150.4	-3.6
shares in total, %	28	2.1	22.4	47.5	100.0	

(a) of exports to OECD countries

(b) total for temperate agric. assumes no effects for Antigua and Barbuda, Bahamas, Dominica, St. Lucia and St. Vincent and the Grenadines

Note: totals may not add up owing to rounding

ing countries' exports that would mean increases in total Jamaican exports of between 6 and 17 per cent. Minor suppliers without MFA quotas, including the other Commonwealth Caribbean suppliers, and other newcomers protected by MFA quotas from more competitive Asian suppliers, are subject to the same downside risk – loss of markets to Asian producers. The estimates used here are based on 3.5 per cent annual growth in OECD imports and a loss of 50 per cent of market share over the decade of Caribbean and Mexican exports to Asian suppliers. Mexico will also lose out to the Asian countries, even on NAFTA markets. The tariff preference of some 16 per cent after the UR and NAFTA transition periods will not be sufficient to prevent loss of market share.

Summary of effects of Uruguay Round on exports

Table 13 summarises the estimated effects of the tariff reductions for tropical products, fish and other industrial goods and the phasing out of the

MFA on exports of textiles and clothing. The UR effects on temperate agricultural products have been discussed earlier. Temperate agriculture, mainly lower prices on the EU market for sugar and rice, but also including the higher import prices associated with liberalisation in the DMEs, accounts for 28 per cent of the total.

Tropical products (which do not include bananas for reasons discussed earlier) and fish only account for 2 per cent, while textiles and clothing (about which more below) a further 22 per cent. Those on tropical products and fish are higher in proportionate terms for those countries where fish exports are relatively important. The reductions in tariffs on fish, and hence erosion of tariff preferences, are greater than for most tropical products. In the case of Jamaica, there is a loss of 3.6 per cent of exports of tropical products. This results from the erosion of loss of preferences in coffee, tobacco and other tropical products, mainly vegetables and fruit, plants and flowers, and spices. Other industrial products account for almost half of the total effects for

the Commonwealth Caribbean taken together, but these are principally bauxite and alumina exports by Jamaica and Guyana and chemical exports by the Bahamas and Trinidad and Tobago.

The total estimated loss to Commonwealth Caribbean exports is \$150 million, of which Jamaica accounts for \$63 million, and the Bahamas and Trinidad and Tobago respectively \$32 and \$24 million. The total loss in *volume* terms from trade diversion net of gains from trade creation amounts to \$57 million which is equivalent to 2.9 per cent of 1992 exports to the OECD. Taking account of the falls in the prices to protected suppliers on the OECD markets (the loss in economic rent), the export revenue shortfall amounts to 3.6 per cent of total exports.

The Caribbean countries outside the Commonwealth, in particular the Dominican Republic, suffer to a proportionately similar extent because of their exports of metals and minerals, leather and footwear, electrical equipment and other industrial products (see Page and Davenport, 1994). In contrast, Mexico actually gains in terms of export revenues. For most manufactures outside of textile products it already benefits from duty-free entry to the OECD countries through their various GSP schemes. It will lose through trade diversion towards MFN suppliers. But here on balance the rise in world prices offsets the loss in *volume* terms and the loss in rents, and despite a negative figure for non-electrical machinery, on balance export revenues rise, albeit by only 0.25 per cent of 1992 exports.

NAFTA effects on export

Agricultural goods

In principle, the special quotas for Caribbean sugar in the US market are unaffected by NAFTA. Sugar is a highly sensitive sector in the United States and, as a result, the original plans for liberalising imports of Mexican sugar had to be replaced at the eleventh hour by much tighter controls. The so-called two-year rule was elimi-

nated, under which, after year 6, if Mexico was a net surplus producers for two years, it could export its entire surplus to the US. Between years 7 and 14, there will be a new ceiling on Mexico's duty-free sugar exports to the US of 250,000 tonnes, or Mexico's net production surplus, whichever is lower. This compares with a prior level of 150,000 tonnes, to be increased by 10 per cent each year.

There is some danger however that Caribbean producers will find their US quotas squeezed. Unlike the EU quotas they are not fixed for any length of time but can be varied from year to year. With a fixed quota for Mexico, now at a higher level after 7 years than earlier planned, Caribbean quotas are likely to reflect – inversely – US production levels.

Exports of sugar to Canada are small overall, but quite significant for Barbados and Belize. Respectively they represent \$1.4 million (or 1.7 per cent of total exports to the OECD) and \$5.0 million (or 4.4 per cent of exports). They benefit from CARIBCAN provisions and, unless these are changed, are not likely to be much affected. Barbados rum is an important export to Canada but it is not subject to tariff or non-tariff barriers (other than excise duties which will still remain in force on imports from Mexico).

Caribbean exports of other raw or processed agricultural goods to North America countries will not be greatly affected by NAFTA. The main effect is likely to be through investment in food processing industries in Mexico (see Chapter VI). This could impinge on the Caribbean in a number of sectors including ethanol. Jamaica exported nearly \$9 million of ethanol to the US in 1992. These sales could be endangered by reduced costs through additional investment and economies of scale in the much larger Mexican industry.

Jamaica's recently expanded exports of tropical orchard crops enter tariff-free, in competition with Mexico as well as California, Florida and Central America. Some problems with phytosanitary conditions remaining, e.g. with mangos which could benefit from investment by US fruit-

importing companies. Other ventures in processed foods and live plants and cut flowers could benefit from investment from NAFTA countries.

Textiles and clothing

The NAFTA effects on textiles and clothing in Table 13 are based on a partial equilibrium trade model. These figures must of course be taken as tentative. But they do give some sense of the orders of magnitude involved in trade diversion in the clothing sector. The elasticity of demand in the United States and Canada is assumed to be unity. Supply elasticities in all sources are assumed to equal 1.5. The calculations take explicit account of the Jamaican 807A operations, which account for roughly 96 per cent of textile product exports. As MFA tariffs are phased out, these exports will also be subject to Asian competition though they do have the extra tariff margin of the tariff-free value added content of US-supplied fabrics, averaging roughly 75 per cent. When MFA quotas are significantly relaxed, that trade preference might not amount to very much, given the higher prices of fabrics on the US market than, say, in India.

The upshot is trade diversion of from 3.5 to 4.7 per cent of clothing exports from the Caribbean to Mexico (between \$13.1 and \$17.6 million out of \$374 million), together with trade creation of 9.3 to 12.4 per cent in favour of Mexico. Combining the UR and NAFTA effects gives a loss of export revenues for Jamaica, the worst affected of the Commonwealth Caribbean countries, of some \$40 to 44 million (3.2 to 3.5 per cent of total exports to OECD markets). On the base of a much larger volume of exports Mexico experiences a net effect of \$40 to 86 million, or from 0.1 to 0.2 per cent of exports.

Trade diversion to Mexico could be serious over the next five to seven years. These figures do not, of course, include the more serious effects of loss of markets to Eastern suppliers with the elimination of MFA quotas. But two caveats are in order, both of which soften the seemingly bleak picture facing the Caribbean apparel manufac-

tures. First, the phasing out of the MFA will not start to have significant effects until the year 2002. There are four stages in the phasing out operation, the beginning of 1995, 1998, 2002 and finally 2005. However, the rules are such that, in 1995 and 1998, the importing countries can concentrate on removing products from control where quotas are under-utilised. Indeed, it will be possible to continue to protect the most sensitive products right up until 2005. Since it is largely in those goods – where the quotas are most constraining – that the new producers have developed their market share, they will at least have time to become competitive with Asia (which may be difficult) or to diversify into other sectors – or less competitive subsectors of the clothing trade.

Second, the Caribbean has the great advantage of proximity to the North American market. This reduces transport costs which enables the importers to keep inventories to a minimum. Further, 'there is evidence that as major United States' apparel distributors began to install the quick response information technology... they also begin to find that the long delivery periods and large stockholdings that were an inevitable consequence of dealing with the Big Three and other remote suppliers become less acceptable. Trade sources suggested that these factors were becoming of importance by the end of 1987' (Business International, 1989, 91, 127, quoted by Vincent Cable, 1995). If that was already the case in 1987, how much more so is it today.

Other industrial goods

The effects of NAFTA on other industrial exports are limited by the absence of tariffs under the CBERA and CARIBCAN on most exports to the US or Canada. Even where the CBERA (or MFN) tariff is non-zero, tariff rates are generally low. Yet, as was pointed out, the utilisation rate for tariff-free CBI products is under 60 per cent. That means that some 40 to 50 per cent are subject to full MFN tariffs. This could change as Caribbean exporters become more familiar with the administrative system, but, for certain prod-

Table 14: Estimates of UR and NAFTA effects on Commonwealth Caribbean apparel exports, \$ m and %

Country	clothing expts. to OECD	effects of UR	exports. to North America	NAFTA effects	
				low variant	high variant
\$ m.					
Antigua	0.3	0.0	0.3	0.0	0.0
The Bahamas	0.1	0.0	0.1	0.0	0.0
Barbados	7.7	-0.7	7.6	-0.3	-0.4
Belize	19.0	-1.7	18.9	-0.7	-0.9
Dominica	0.2	0.0	0.2	0.0	0.0
Grenada	0.3	0.0	0.3	0.0	0.0
Guyana	4.3	-0.4	4.3	-0.2	-0.2
Jamaica	320.9	-28.6	317.2	-11.1	-14.9
St. Lucia	20.3	-1.8	20.2	-0.7	-0.9
St. Vincent and the Grenadines	3.5	-0.3	3.5	-0.1	-0.2
Trinidad	1.6	-0.1	1.5	-0.1	-0.1
Total	378.2	-33.7	374.1	-13.1	-17.6
Mexico	1,000.4	-89.0	987.6	129.4	174.8

ucts, there may be limits set by the rules of origin. There may be no source of supply for certain inputs in the other beneficiary countries, or at least none which is economically viable.

One such good is acids and derivatives (HS 5125) of which the Caribbean exports small but increasing quantities to the US worth some \$60 million in 1991¹². The MFN tariff, which for non-benefiting CBI exports becomes the Mexican tariff margin, is 5.1 per cent. Trinidad and Tobago exports \$41 million of kerosene and motor spirits but the MFN rate on these only averages 1.1 per cent with the CBI rate non-zero at 0.5 per cent. On other products the MFN rate is low and the Mexican margin of no great concern. On crude petroleum, the MFN rate does apply to Trinidad and Tobago's exports as it is excluded from the CBI, but the rate of only 0.5 per cent is hardly enough to give Mexico a significant competitive edge. Of course, the low MFN tariffs on a number of Commonwealth Caribbean exports to the US – molluscs and crustaceans (0.1 per cent), aluminium bases (0.2 per cent) – may explain part of the low uptake of the CBI access terms. Nevertheless, the potential

problems of meeting CBI rules of origin criteria and the new tariff margin in Mexico's favour must reduce, even if marginally, the Caribbean's future export opportunities.

Appendix Table 8 shows exports of the main non-traditional products (excluding apparel) of the Commonwealth Caribbean countries to the OECD in 1992. Only those where the 3-digit grouping covers at least 0.5 per cent of aggregate exports to the OECD are included. Alongside Commonwealth Caribbean countries' exports to the US are Mexican exports to the US of the same Standard International Trade Classification (SITC) group. In nearly all cases Mexican exports are many times greater than those of the Caribbean country or countries.

Exports of travel goods and handbags are a growth sector in Antigua and Barbuda and have been aided since 1990 by preferential tariff reductions in the US – they have never been tariff free under the CBERA with tariff-free entry where all components are sourced in the US. For those that are not fully US-sourced, Mexico will enjoy substantial tariff preferences of the order of 7 per cent when Mexican tariffs are eventually phased

total expts. to OECD 1991-92	UR/NAFTA effects as % total expts. to OECD	
	low variant	high variant
	<i>per cent</i>	
15.9	-0.2	-3.0
971.4	0.0	0.0
85.0	-1.1	-1.2
115.2	-2.0	-2.2
57.3	0.0	0.0
22.0	-0.2	-0.2
288.3	-0.2	-0.2
1,230.3	-3.2	-3.5
127.5	-2.0	-2.2
92.8	-0.5	-0.5
1,211.2	0.0	0.0
4,216.9	-1.1	-1.2
41,510.3	0.1	0.2

out. Chemical exports are tariff-free under the CBERA while Mexico has enjoyed tariff-free entry under the US GSP scheme. No major change in relative competitiveness is likely to come directly from NAFTA but there could be an investment effect.

Appendix Table 8 also shows that not all the non-traditional exports listed are sold predominantly in the US. The EU is an important market for non-electrical motors (usually marine) from Antigua and Barbuda and Barbados and boats from a number of countries. Travel goods, toilet preparations and footwear are also exported to the EU. For these goods the Commonwealth Caribbean countries have only marginal preferences (through easier rules of origin) over non-ACP developing countries.

The much greater value of Mexican exports to the US in nearly all the identified product groups is not surprising. Market share is not itself a guarantee of future growth. There may be areas where the Caribbean exporters have an advantage in the exploitation of niche markets in carefully differentiated products, or where there is little competition with Mexican producers

owing to low elasticities of substitution in supply and demand. Nevertheless, the very size of the competitive industry may be of concern, simply through its capacity for predation. By entering into head-on competition and taking advantage of all possible economies of scale, exploiting exclusive marketing arrangements or other restrictive practices, and eventually dumping, the Mexican producers may be able, at some cost, to eliminate the Caribbean producers. Even dumping might not elicit a US reaction if domestic production is small or non-existent.

The NAFTA effects on exports from Commonwealth Caribbean countries to Canada and Mexico remain to be considered. Canada imports clothing from a number of Commonwealth Caribbean countries. In 1992 the total value was some \$14 million, with \$4.3 million sourced in Jamaica. These exports will suffer the double blow of losing the protection afforded by MFA quotas on lower cost Asian producers because of the phasing out of the MFA, and an adverse tariff margin vis-à-vis Mexico of over 20 per cent. One must assume that the greater part of these exports will be lost, primarily to the Asian suppliers.

Jamaica: Looking specifically to prospects for Jamaican industrial exports, the loss of preference margin on the EU market will not make diversification any easier. Jamaica's exports to North America are firmly dominated by sugar and rum, alumina, bauxite and apparel. Jamaica's exports are more concentrated now than a decade ago. In 1980 it exported 93 commodities; in 1990 the number was 81¹³.

Outside of apparel, the NAFTA direct trade diversion effects are likely to be small for Jamaica. Jamaica's major non-apparel exports qualify for tariff-free entry to the US and Canada (though there can still be rules of origin problems). Jamaica's exports of bauxite and alumina are zero-rated in the US (but they are products also of Mexico). In these sectors NAFTA could give a competitive advantage to Mexican companies as it encourages investment there (see Chapter VI).

The only current export products in which there might be a direct NAFTA effect are in footwear and cotton fabrics where Mexico will retain small tariff preference of 3 to 4 per cent after the transition period. Exports to the US of these two products accounted for \$2.3 million and \$0.5 million respectively in 1992, a total of less than 0.3 per cent of Jamaican exports. But NAFTA could have a further and more pernicious effect in promoting investment in Mexico which could shut the door to potential Jamaican industrial diversification – into electronics (by Japanese and South East Asian companies), into furniture and wood products for example.

Uruguay Round effects on imports

The emphasis in most of the discussion of the effects of the Uruguay Round is on its implications for export markets. The whole *modus operandum* of the negotiations was improving access through reducing import barriers. In the case of the Commonwealth Caribbean, the proposed cuts in the CARICOM common external tariff were agreed well in advance of the end of the UR negotiations, and independently of them, though the reductions were taken as meeting the UR improved access requirements of the CARICOM states. The liberalisation of import barriers was in no way dependent on a successful outcome to the Round. The Caribbean, has since the latter 1980s, increasingly appreciated the importance of liberalising the import regime in the interests on improving allocative efficiency through both lower costs of imported inputs and the gains from import competition. The Uruguay Round may have played some role in encouraging this trend towards a more outward attitude, but how important that role was is impossible to determine. But, if through encouraging liberalisation of access, the UR has furthered the structural adjustment of the Commonwealth Caribbean countries, particular in developing new genuinely resource-based export sectors to replace dependency on special preference, it will have made some contribution to offset the negative direct impact on exports.

However, CARICOM has a role to play in further liberalisation and enabling the exploitation of whatever opportunities may exist for trade creation within the region. CARICOM has not yet developed into a fully-fledged free trade area, let alone the common market with free movement of factors of production that it formally set as a target in 1989. Even the Common External Tariff (CET) is not comprehensively applied. There are all manner of exceptions. Surcharges and excise duties in addition to the CET tariffs are common. The Eastern Caribbean Common Market (ECCM) countries and Belize may apply lower rates for non-competing products. Generally lower-than-CET rates are allowed for goods where there is a cost of living factor and higher-than-CET rates where there is a tariff revenue factor. Still, it is interesting that the justifications for diverging from the CET do not include industrial protection.

As regards Jamaica, substantial reductions in import barriers occurred at the beginning of 1995. These included the elimination of the so-called stamp duties on imports of agricultural products which were levied in addition to the CARICOM CET. They were pitched to offset differences in the CET. Where the CET is zero – as in the case of chicken and turkey wings, and animal feeds – they were set at 70 or 80 per cent; where the CET is at 40 per cent, the stamp duties were generally set at 32 to 36 per cent. Where the CET rate is at an intermediate level, so too was the stamp duty rate.

The elimination of stamp duties is expected to cause considerable dislocation to Jamaican farming, particularly in the poultry, pig and vegetable sectors. Already there are complaints that the large US producers are dumping poultry wings and thighs, which are low-value by-products of breasts, on the Jamaican market.

Conclusions

The direct trade effects of the Uruguay Round are not very great in themselves, but they are consistently negative for the Commonwealth

Caribbean countries. For the region as a whole they are estimated to have a negative impact on exports equivalent to 3.6 per cent of exports to the OECD countries or roughly 2.4 per cent of all exports – ignoring the minor gains from lower import barriers in the developing countries. Discrepancies between different countries are significant. Barbados is estimated to lose 9 per cent of its exports to the OECD, but because of the greater significance of its trade with the Third World, that translates into roughly 3.8 per cent of total exports. Jamaica will lose about 5.1 per cent of exports to the OECD or 4.5 per cent of world exports.

The impact of NAFTA is likely to be up to a half of that of the Uruguay Round in the area of clothing, but much less significant elsewhere. I have assumed a major loss in market share in Commonwealth Caribbean exports with the pro-

gressive elimination of MFA quotas, which means that the UR effect is greater than that of trade diversion to Mexico from NAFTA. Because Mexico will also enjoy the benefits of trade creation, its estimated NAFTA gains easily outweigh the UR losses.

In other industrial sectors, in particular in chemicals, NAFTA may lead to some little trade diversion away from the Commonwealth Caribbean towards Mexico. Here the potential indirect effects are likely to be greater than the direct effects. Where there is a choice of investing in Trinidad and Tobago or the Bahamas or Mexico, the choice of location will be significantly biased towards the last, not only because there will be a slight tariff differential in Mexico's favour but also because of the greater security of tariff-free access. Chapter VI goes into these questions in some greater detail.