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Policy Options

Improving preferences and assistance for the Commonwealth Caribbean countries under Lomé IV

The Mid-term Review of Lomé IV is in progress as this is being written. Some detailed proposals concerning preferences were included in a report written for the ACP Secretariat to assist in the negotiations, and which, in a modified version, is to be published as Davenport, Hewitt and Koning (1995).

Although there will probably be delays till 1999 or 2000 before there are significant reductions in internal EU **sugar** prices, the question remains as to whether falling EU domestic prices necessarily should imply falling guaranteed prices to ACP States. The Sugar Protocol was intended to transfer rent to sugar-producing countries and enable that industry, with its major contributions to employment and the trade balance, to survive. If those reasons remain valid, there is no logical justification for lowering the price paid for ACP sugar simply because there are reforms going on in the CAP.

Special factors such as the deficit of supplies for the new refining capacity in Portugal and the enlargement of the EU may justify quota increases, but clearly the ACP suppliers, at a time when returns to EU beet farmers are threatened, will have to negotiate delicately.

In certain Commonwealth Caribbean countries progress is being made in improving productivity in sugar production. This is particularly true in Jamaica. The most efficient estate factory in **Jamaica** – Worthy Park – can produce sugar at approximately 13 to 14 cents per lb. The production cost of the least efficient, for example Moneymusk, is now some 17 to 18¢. The world price at the time of writing is between 12 and 13¢ per lb. This has been boosted by drought in some major growing countries and cyclical recovery in North America and Europe. But there will be upward pressures on the world price from the UR agreement – about 8 per cent was suggested earlier – though there may be other factors bringing downward pressure, such as increased output in Eastern Europe and the former Soviet Union. The world price would be strengthened by the diversification of Cuba – the world's largest exporter but one that is generally non-competitive at world prices – out of sugar production. This will be accelerated if some of Cuba's preferential exports to Portugal are reassigned to ACP quotas. In any event the potential competitiveness of a sector of the Jamaican sugar industry on the world market within several years should not be dismissed.

The subsidies to Commonwealth Caribbean sugar exports associated with the special access to the EU market should be made more predictable through delinking the price paid from the intervention price offered to EU sugar beet farmers. In return they could be tied to (i) agreed national programmes for improving competitivity in the sector with the aim of achieving competitiveness on the world market for a substantial quantity of each country's output by the end of the present Lomé Convention and (ii) agreed national programmes for diversifying resources out of sugar where the soil, climatic, topographical, transport or other facilities preclude reaching competitiveness on world markets.

ACP banana quotas should be transferable, at the least among groups of ACP countries with the Caribbean as such a group. Ideally, this would be done through a free market. For example when a hurricane, labour problems or other unpredictable event – or the success of diversification into other activities – reduces the output in one country, it would be able to derive compensation through selling its quota entitlements to other producing countries. If the dollar banana exporters were able to bid for these entitlements the market would be deeper and prices realised higher.

The EU Commission has made some proposals along these lines, but they are insufficient. For example, transfers of quotas would have to be arranged at the beginning of each year except in the case of a natural diaster. It would be useful if producing countries were rewarded for success in diversifying out of bananas through being able to sell their current and future quota rights at any time. In the case of a small group of clearly defined producers like the Windward Islands, the EU should give a single quota – which would be consistent with the avowed EU policy of improving regional co-ordination.

Most important radical steps need to be taken to prepare the less competitive producers – in the Commonwealth Caribbean that means all except Belize and the most efficient of the Jamaican estates – for the end of the regime in December 1992. Discussions about a successor regime are scheduled to begin at least a year in advance, but in the climate of trade liberalisation and reciprocity, it would be unrealistic to assume that the next regime, if there is one, will give anything like the special access that the present one offers.

The EU has not set aside any special funds to help in diversification. Basically, only the European Development Fund allocation to each country for Lomé IV is available. Neither the overall amount, nor the country allocation, of the second tranche of those funds (1996 to 2000) had yet been decided at the time of writing, but clearly the Caribbean banana-producing countries have a particular need and, given the history of banana production in the Caribbean, one could argue, a good case for better treatment.

An extension of preferences for **temperate agricultural exports** to the EU market, outside of sugar and rice, would benefit existing and potential Commonwealth Caribbean producers (see Davenport, Hewitt and Koning, 1995).

In order to support the diversification process of the Lomé Convention the **rules of origin** on ACP exports of manufactures to the EU should be relaxed. The rules are intended to encourage upstream and downstream industrialisation in the ACP States, as well as prevent deflection of non-ACP exports through the ACP States to exploit their privileged access to the EU market. However, they clearly discriminate in favour of those countries which have reached a certain level of industrialisation and skills and so are able to supply a sufficient proportion of inputs to meet the requirements. Easing of the rules of origin could induce significant foreign direct investment, training and employment. In addition, an expansion of the opportunities for cumulation under the rules of origin would be valuable, while the EU should facilitate the cumbersome derogation procedures.

Some tentative suggestions are made below about how the **services exports** and **factor income receipts** of the developing countries could be strengthened by preferences analogous to the GSP. The following are possible mechanisms for giving preferences to the service exports of the developing countries:

- the tenders from developing countries to supply goods or services (e.g. construction) under public procurement contracts could be granted a disregard of one or two per cent when it came to determining the lowest bid in a public procurement tender. This could be done through independent initiatives by developed countries, analogous to the GSP, or, preferably, through a common approach agreed through the OECD, UNCTAD or the WTO;
- sector-specific measures to help developing country exports of off-shore services e.g. provisions to allow private or public health insurance to buy medical services in the developing countries, many of which are

now in a position to supply both out- and in-patient treatment of comparable quality to the DMEs;

- the DMEs could enter agreements with the developing countries to enable them to better plan human resource development in such areas as medical education and nurses' training, where the developing countries already do or could supply trained personnel on a temporary basis to the DMEs.

NAFTA-parity as an option

Discussions of NAFTA-parity have been in progress for some years. NAFTA-parity does not imply equivalence to NAFTA membership. It has the more restricted sense of parity with Mexico on the United States market. The recently proposed NAFTA-parity bill would mean parity only for CBI exports to the United States of 807A apparel products, i.e. goods where the yarn is formed and woven in the NAFTA region (together with handmade or folklore articles) and for which Mexico already has duty-free access to the US market. Since 807A products accounted for some 85 per cent of Jamaica's apparel exports, 40 per cent of exports to the United States and up to 25 per cent of world exports (author's estimates for 1993), this is clearly of considerable value to Jamaica. Indeed, it is largely through Jamaican diplomatic efforts, with the support from US apparel manufacturers, that the proposal has advanced so far. It is of less interest to other Caribbean countries whose non-CBI exports are concentrated in sectors such as leather goods or petroleum products, though it would give them additional incentive to go into 807A apparel production.

NAFTA-parity, even in that restricted sense, would be conditional on national legislation to establish Intellectual Property protection and Bilateral Investment Treaties (BITs) with the United States. The proposed US bill would place conditions on benefiting countries including:

- UR-style TRIPs provisions but without the four-year grace period allowed for developing countries under the UR, i.e. full national treatment with regard to the protection and enforcement of all intellectual property rights;
- within two years, conclusion of a BIT, based on the US model and both to be implemented within 18 months. The BIT would provide for national treatment for investments in other member states and treatment no worse than accorded to a third party (i.e. all incentives to attract FDI must be available). Conditions such as minimum export performance or local content requirements would be proscribed, so that the exemptions allowed to developing countries for balance of payments reasons under the UR agreement would be excluded;
- implementation by the beneficiaries of trade and investment programmes on the principle of sustainable development, internationally-recognised labour standards and GATT or WTO membership.

These conditions present few problems for Jamaica, which has already signed IPA and BIT treaties with the US. This is not the case for most Caribbean countries, and such treaties would imply significant changes in domestic legislation and disruption within certain sectors.

The BIT requirement is intended to serve the interests of US companies who might want to invest in the Caribbean and, in doing so, increase the exports of services and factor incomes in the US balance of payments. Clearly, the gains to the different parties would be very unequal, given the much greater size of the US economy than of any Caribbean partner. The CARICOM Secretariat's study (1994) suggests a worrying imbalance here. However, in a developing country the shortage of investment capital is generally a constraint. Thus, an increased inward flow of FDI cannot be considered as a cost to be set against improved access for exports. It would make a positive contribution both to the balance of payments and, through investment, to economic growth.

It is also important to note that exemptions from national treatment can be negotiated. Jamaica obtained exemptions for civil aviation, real estate, retail banking, shipping, communications, mining and natural resources and car rentals. Presumably the most usual justification would be infant industry, but national security, social health, the environment, technical education, even employment per se could be invoked, particularly if the exemptions were time-limited. As regards financial services, the existing NAFTA members have themselves heavily circumscribed their commitments to national treatment.

Finally in the context of NAFTA-parity, it should be stressed that the threat from Asian producers that will come with the elimination of MFA quotas is at best mitigated. Certainly, a continued presence of apparel plants in Jamaica, producing in collaboration with US cloth manufacturers and the US retail sector, will improve the chances of finding products which can compete, perhaps high value-added fashion goods, perhaps other special-interest goods. Clearly, the advantages, shared by both Mexico and the Caribbean, of closeness and low transport costs to the US market, of the opportunities for quick response to changes in tastes and for filling gaps as they arise may, with the right management, be sufficient to maintain an apparel sector in Jamaica as well as in Mexico. But in order to preserve that capacity, NAFTA-parity in the near future is a necessary, if not sufficient, condition.

The future of the Lomé Convention

Twice in the past two years GATT panels examining Latin American complaints over successive EU banana regimes have resolved that neither the regimes per se or the ACP trade preferences in general have been GATT-legal. The negative determination by the last working party led the EU to seek a waiver to allow the ACP preferences to continue until Lomé IV ends in the year 2000.

But as well as threats from the WTO, the trade content of any new Lomé Convention will be conditioned by internal factors. These include the EU budget constraint and the argument that the EU should be more selective and discriminatory in its relations with the ACP States. The two factors are mutually reinforcing. Those arguing for more selectivity are in favour of the EU restricting most of its special trade arrangements – and much of its aid – to the least-developed ACP countries, which broadly means Sub-Saharan Africa. These arguments parallel the recent Commission proposals for targeting the GSP. GSP concessions would be modulated by both the income group of the developing country and the sensitivity of the EU industry.

In the case of the middle income ACP states, which include the Commonwealth Caribbean countries, a much greater degree of reciprocity, i.e. tariff-free treatment of EU exports, is likely to be demanded. Meanwhile, aid arrangements, including STABEX and SYSMIN and EDF funds, may be more targeted on the least developed ACP States.

Special commodity arrangements may well not be renewed when they reach the end of their present terminal date. This includes the banana regime. Others may be allowed to whither on the vine. As EU internal sugar prices approach the world level, the value of the Sugar Protocol disappears. As EU protection in rice and other agricultural products dwindles away, so too will the special tariff treatment of ACP exports lose its value.

Agricultural protection in the EU will not disappear rapidly. But there is already talk about a new wave of CAP reform which would go much further than the UR requirements. The future of the CAP is likely to see increasing emphasis on farm subsidies uncoupled from production, the re-nationalisation of subsidies so that the member states have the responsibility to pay beyond a minimal EU level, and the reduction of the wedge between EU and world prices.

Finally there is the growing concern that the trade provisions of the next Lomé Convention will be very different form the those of earlier Conventions. This views preferential access as a second-best approach to development assistance. Moreover, preferences are inevitably becoming less powerful instruments as tariff barriers fall and NTBs are phased out.

The long-term future of all trade preferences is uncertain. They are out of step with the momentum of global liberalisation. Indeed, they often encourage the emergence of a lobby against any trade liberalisation which would erode such preferences. They discourage diversification into areas where the country may have or be able to develop a comparative advantage. They penalise countries who have such an advantage but are not granted the same preferential treatment. Where preferences work, they tend to lock countries into a pattern of exports which may not be justifiable in terms of economic rationality. Countries have little incentive to become internationally competitive as long as the preference is expected to continue, nor to diversify into other export products. This report does not go beyond the analysis of the direct effects of the UR and NAFTA on preference reductions, but it is nonetheless true that the UR, in its contribution to and reinforcement of the long-term trend towards free trade on a global scale, and NAFTA, in the powerful sanction it gives to the proliferation of regional trade agreements, will together hasten the demise of ad hoc product-specific preferential arrangements.

The Lomé IV Convention comes to an end in the year 2000. Before that date there will be detailed discussion of the evolution of trading relations between the ACP countries and the European Union. Of course it is important that preferential access to the EU should not be cut off overnight. Any reduction in access should be phased in over a period of years to give maximum encouragement to diversification. This includes investment and retraining workers. This report has pointed to the danger that this obvious requirement has not been adequately taken into account in the new EU banana regime.

The strengthening of CARICOM

Despite constant pledges of improved co-ordination through CARICOM, all too often individual members behave as though the organisation does not exist – or only remember their obligations to consult their fellow states after the decision has been made. Neither CARICOM not the embryonic ACS is an alternative regional grouping to NAFTA. But CARICOM has an important role to play in the co-ordination of policy with regard to future Lomé Conventions and eventual membership of a wider NAFTA.

Building up stronger intra-CARICOM trade links would promote diversification within the member states. In many cases, intra-CARICOM trade might supply the critical mass needed for the establishment of a firm or sector, both reducing regional imports and possibly initiating a broader-based export industry. One factor clearly detrimental to intra-CARICOM trade is the current inadequacy of transport links among the islands. There is also room for joint efforts, co-ordinated by CARICOM, in transport, tourism, telecommunications and to improve settlements facilities.

A co-ordinated CARICOM approach may be particularly important in detailed negotiations for membership of a wider NAFTA. The United States has stated that it will require new members to sign a bilateral investment treaty and legislate an adequate intellectual property act. Jamaica has already met both conditions. However, for other CARICOM members joint negotiations would to some extent redress the bargaining imbalance and raise the chances that these conditions were met with sensitivity to the particular interests of the Caribbean. The United States has actually expressed a preference for negotiating with a regional organisation rather than thirteen individual sovereign states.

The most important role for CARICOM may well be in negotiations for additional preferences in NAFTA or negotiations for entry into an expanded pan-American trade bloc. The United

States has already indicated that it would rather negotiate with a single organisation than 13 small countries. And those countries would greatly enhance their bargaining strength vis-à-vis the regional hegemony. CARICOM has to some extent established its role as a trade negotiator in trade agreements with Venezuela and Colombia. However, some of the experience so far is less than benign. Jamaica embarked on discussions on NAFTA-parity treatment for its apparel exports to the United States with little consultation with its partners.

NAFTA membership as an option

There is a clear tendency towards the division of the world into large trading blocs. Joining NAFTA would give the Caribbean countries access to such a bloc. The direction of Caribbean trade suggests that North America is the natural partner. The North American share in Caribbean exports will likely grow as manufactures and service exports expand relative to food and industrial raw materials. Within the Caribbean countries, eventual membership of a pan-American FTA is taken for granted. They unequivocally expressed their interest in joining an expanded NAFTA at the Summit of the Americas in Miami in December 1994.

Some estimates of the trade diversion away from the Commonwealth Caribbean were reported above. The proposed NAFTA-parity arrangement would eliminate less than half of it. Moreover these estimates are based on the current structure of North American imports and the exports of its partner countries. Thus, they ignore the development of new goods, the establishment of new comparative advantage in existing products and changes in the structure of demand. Some of these developments could be of major significance to the Caribbean countries under a free trade arrangement with North America and other future NAFTA members. In practice, no NAFTA-parity arrangements will make allowances for structural changes in trade flows or potential trade flows.

The CBI and CARIBCAN are only concessional arrangements and are not based on treaty obligations. Lomé IV is due to end in the year 2000, and there can be no confidence that the unilateral trade concessions of the arrangements hitherto will survive. Thus, there is insecurity about the access of Commonwealth Caribbean countries' exports to both their dominant markets. This must result in some long- and medium-term investments, which would otherwise have gone to the Caribbean, being deterred or diverted. No agreement on NAFTA-parity for some or all exports would resolve these problems of insecurity. Moreover whatever sectors can be included within NAFTA-parity arrangements, that parity is a concession which may be withdrawn if producers within existing NAFTA members or future NAFTA members argue that their domestic industry is under threat.

It is true that there is at present a momentum towards the liberalisation of trade in goods and services world-wide. Future multilateral trade negotiations will lead to further tariff reductions, reducing the scale of trade diversion and the tariff preference margins associated with membership of trade blocs. However, it will be many decades before world free trade becomes a practical reality. Indeed, the transition period for the phasing out of the MFA and most action by developing countries in the UR agreement is ten years. Secondly, some high tariff rates will remain after the UR has been fully implemented. Even where tariffs are largely irrelevant, protectionism through anti-dumping and countervailing measures, safeguard clauses and other unilateral and power-based rather than rule-based action will continue. The difficulties in limiting the scope for contingent protection were seen in the failure of the UR negotiations to significantly trim national discretion in anti-dumping actions.

At a global level, contingent protectionism may well survive the elimination of MFN tariffs and formalised NTBs. But within a regional trading bloc like NAFTA, there is a reasonable expectation that they will be gradually ruled out, or at least severely contained, as the harmonisation and, possibly, regionalisation of competition law and its implementation develops.

The FTA of the Americas will be much more than an area defined in terms of preferential access for goods. It will be more an area defined in terms of a network of agreed rules, most importantly concerning the cross-country establishment and property rights. NAFTA membership would put the Commonwealth Caribbean countries on a par with Mexico and future Latin American members, not only with respect to exports to North America, but also as far as FDI is concerned. The implications for FDI are the most important single reason to go for full membership. In addition, NAFTA affords a far greater security of access to the US market for products originating in Mexico than does the CBI for its much more limited range of covered products. The CBI has been regularly extended in scope but it is a concessional scheme and can be discontinued unilaterally by the US, as can CARIBCAN, Canada's analogous preference scheme for the Caribbean.

The costs of membership of an extended NAFTA will include (i) formal and informal preconditions established by existing members; (ii) the economic impacts of reciprocity; and (iii) probably a change in the relationship with the EU. In various fora US officials have included as criteria for membership:

- a stable macroeconomic environment and market-oriented policies;
- commitment to the multilateral trading system;
- progress in achieving open trade regimes and good standing in the GATT (now the WTO);
- reciprocity as regards FTA arrangements, i.e. elimination of tariffs and NTBs over an agreed period, subject to rules of origin.

Agreements would be required on:

- the opening of government procurement and national treatment for the supply of services;
- a Bilateral Investment Treaty (BIT);
- protection of intellectual property rights (IPRs);
- special provisions dealing with natural resources and natural resource-based products;
- disciplines on subsidies, state trading, trade restraints justified on balance of payments grounds and the use of foreign exchange controls and restrictions;
- adequate performance with regard to the enhancement of the environment; and
- satisfactory adherence to the concept of workers' rights.

This hotch-potch of conditionality gives the impression of being little more than a compendium of the politico-economic values of successive US speech writers. It is impossible to evaluate the acceptability of different Commonwealth Caribbean countries on the basis of such vague criteria. In practice, the US is likely to insist on a BIT and some institutionalised protection of IPRs. These would be the same as required for NAFTA-parity. Agreements to phase out restrictions on public procurement (maybe to the extent that the UR agreement requires it of the developed countries), state-trading monopolies, subsidies and excessive interventions in markets are less certain but cannot be excluded. The last of these could mean significant changes in certain countries where state trading is still important.

Many of the requirements could be useful in accelerating the privatisation and reinforcement of market mechanisms where they are presently weak or inoperative – in some cases simply through providing the authorities an alibi for unpopular actions. Many others are already satisfied or are in the process of being met. Others are too imprecise, e.g. the enhancement of the environment, to be obstacles to membership, at least in their present form.

As regards the central requirement of reciprocity, the present NAFTA agreement establishes different rates of tariff elimination for five different categories of goods, defined according to the sensitivity of domestic industries. These range from the goods where trade became tariff-free on 1 January, 1994 to those for which the final stage of tariff elimination will not be completed until 1 January, 2003. Individual members were able to negotiate special exclusions to allow for export controls or taxes in certain sectors – Canada on logs, fish and liquor; Mexico on logs and specified foods – and to assign longer adjustment periods for phasing out tariffs in particular sensitive sectors.

A particularly complex set of rules – and exceptions to those rules – applies to trade in agricultural goods, but the general principle of the elimination of all tariffs and NTBs still applies. The agreement recognises special rights as regards Mexican measures to restrict foreign activities in the energy sector. It may be slightly more difficult for newcomers to obtain special treatment in sensitive sectors but at least the precedent has been established.

In the case of the opening of public procurement which, as suggested earlier, is certain to be an important feature of any new membership agreement, it is significant that Mexico was allowed more time for compliance, including submitting its exclusion list, on the grounds that that country did not yet have the required structures in place.

Implications of NAFTA membership for ACP participation

Article 174 of the Lomé IV Convention reads as follows:

1. In view of their present development needs, the ACP States shall not be required for the duration of this Convention to assume, in respect of imports of products originating in the Community, obligations corresponding to the commitment entered into by the Community under this Chapter in respect of imports of the products originating in the ACP States.
2. (a) In their trade with the Community, the ACP States shall not discriminate among the Member States and shall grant to the Community treatment no less favourable than most-favoured -nation treatment.
(b) Notwithstanding specific provisions of this Convention, the Community shall not discriminate between ACP States in the field of trade.
(c) The most-favoured-nation treatment referred to in subparagraph (a) shall not apply in respect of trade or economic relations between ACP States or between one or more ACP States and other developing countries.

There are some grounds for arguing that joining NAFTA would not be in breach of the Convention. First, the phrase most-favoured-nation treatment in paragraph 2.(a) could, at first reading, either have its original meaning of access to markets that are no less favourable than any other trading partner; or it could have the modern meaning enshrined in many GATT, and indeed Commission, documents of treatment no less favourable than that received by any other trading partner with whom one has not formed a GATT-consistent free-trade area or customs union. After all, does not the European Union claim to give MFN treatment to the United States and Canada when clearly their exports are less well treated than those of the ACP, the other developing countries, EFTA, the Eastern European countries and so on? This latter interpretation is surely that which is intended in the use of the MFN term in clause 2.(c). Secondly, does not Mexico count as a developing country with whom relations, under clause 2.(c) need not meet MFN treatment rules – using the term in its modern sense?

It is difficult to conceive of a situation whereby the Caribbean countries, on acceding to an extended NAFTA, would actually lose their aid and trade advantages as members of the ACP group. There may be some attenuation of their position as recipients of EU development assistance, though not necessarily bilateral assistance flows. What seems quite likely is that the Caribbean countries who joined NAFTA would have to give equivalent tariff, i.e. tariff-free, treatment to imports from the EU. The result would be that some 60 per cent of Commonwealth Caribbean imports would enter duty-free.

This obviously would have implications for government revenue and the structure of taxation, for the balance of payments and for the economic viability of domestic producers. These are major issues and this report cannot give them adequate treatment. But it may be worth pointing out that a tax which falls in the first instance on importers is not necessarily any less burdensome to households or to businesses, or a drag on economic development, than one based on incomes or expenditures. Secondly, the Caribbean members of CARICOM have implemented some radical liberalisation and agreed to further major liberalisation to be implemented by 1997-98[18]. Eliminating tariffs on 60 per cent of imports would take the process a major stage further. However, it would not happen overnight. Some of it would happen anyway with multilateral tariff reductions through future WTO negotiations. And finally in this context, it should be remembered that five years ago Mexico maintained a much higher level of protection than does the Caribbean today. Over fifteen years, its experience in opening its borders and integrating within the international economy will have been more revolutionary than what NAFTA membership, including tariff-free access for EU goods, would imply for the Caribbean today.

The balance will change even further towards the NAFTA option as more Latin American countries join. Chile is likely to be the next new member. Other Latin American countries will follow and though, the submission of the list of eligible countries by the US President to Congress is not scheduled until 1997, that date is not immutable. NAFTA is the first stage in the implementation of the Enterprise of the Americas Initiative which has as its objective a free trade area from Anchorage to Tierra del Fuego and hemispheric co-operation in trade, investment and debt relief – all of great importance to the small Caribbean countries.

The Caribbean countries are small economies. That implies that they are particularly vulnerable in a world becoming increasingly regionalised:

- with small shares on international markets, they are price-takers on those markets;
- they lack bargaining muscle and so forming common interest groups is particularly important. This would apply to the use of contingent protection measures (anti-dumping, safeguards etc.) where they can do limited damage to a large trading partner, as well as in bargaining in multilateral fora;
- traditional trade theory suggests they have more to gain from forming a customs union with a large country than vice-versa;
- but their enterprises have more to fear in terms of market share when they have to open their borders to foreign investment, say in financial services.

If the Commonwealth Caribbean countries are not members of an expanded NAFTA, there is a real danger that their interests will be adversely, even if inadvertently, affected by individual national policies of NAFTA members as well as by trade and investment diversion among members. Take, for example, the PL480 exports of subsidised rice from the United States to Jamaica which have been very damaging to Guyana's rice exports. With both countries inside the FTA, the chances of a co-ordinated solution to the conflict would be much improved. This is also a example of a situation where strengthened co-operation within CARICOM could pay dividends.

Finally, if the Commonwealth Caribbean countries do not become members of NAFTA, they will be denied tariff- and NTB-free access to the regional bloc as it expands and deepens. They will be subject to the insecurity of whatever NAFTA-parity arrangements can be negotiated, and the increasingly uncertain benefits of ACP membership.