

The Uruguay Round and NAFTA

The Challenge for Commonwealth Caribbean Countries

Michael Davenport



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COMMONWEALTH SECRETARIAT

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Abbreviations

ACP	African, Caribbean and Pacific (States); the developing country signatories of successive Lomé Conventions	MFA	MultiFibre Arrangement (for management of trade in textile products)
ACS	Association of Caribbean States	MFN	most favoured nation (under GATT trade rules)
BIT	bilateral investment treaty	MTN	multilateral trade negotiations
CAP	Common Agricultural Policy of the European Union	NAFTA	North American Free Trade Agreement
CARIBCAN	Canada's Preferential Trade Scheme for the Commonwealth Caribbean	NIEs	newly industrialised economies (equivalent to NICs)
CARICOM	Caribbean Community	NGMTS	Negotiating Group on Maritime Transport Services (to restart the unfinished UR negotiations)
CARIFTA	Caribbean Free Trade Area	NTB	non-tariff barrier
CBERA	Caribbean Basin Economic Recovery Act	OECD	Organization for Economic Co-operation and Development
CBI	Caribbean Basin Initiative (which led to the CBERA)	OECS	Organization of Eastern Caribbean States (comprising Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines)
CET	common external tariff	OFA	Oils and Fats Agreement (of the OECS)
DMEs	developed market economies (effectively the members of the OECD)	Quad countries	Canada, European Union, Japan, United States
EC	European Community (renamed EU: European Union)	RUNS	Rural-Urban North-South
ECCM	Eastern Caribbean Common Market	SAP	structural adjustment programme
ECLAC	Economic Commission for Latin America and the Caribbean	SITC	Standard International Trade Classification
EDF	European Development Fund (the development agency of the EU)	STABEX	System for the Stabilisation of Export Earnings (for the ACP States under the Lomé Conventions)
EFTA	European Free Trade Association	SYSMIN	System for Stabilising Minerals (for the ACP States under the Lomé Conventions)
EPZ	external processing zone (generally equivalent to an FTZ)	TNCs	trans-national corporations
EU	European Union	TRIMs	trade related investment measures (subject to negotiation within UR)
FDI	foreign direct investment	TRIPs	trade-related intellectual property (issues) (subject to negotiation within UR)
FTA	free trade area	UNCTAD	United Nations Conference on Trade and Development
GAL	Guaranteed Access Level (for textiles or apparel under the CBERA)	UR	Uruguay Round of Multilateral Trade Negotiations
GATS	General Agreement on Trade in Services	US	United States of America
GATT	General Agreement on Tariffs and Trade	WTO	World Trade Organisation (successor body to GATT)
GDP	gross domestic product	WINBAN	Lobby group for the Windward Islands' banana producers. Replaced by WIBDECO
GOJ	Government of Jamaica		
GSP	Generalized System of Preferences		
IMF	International Monetary Fund		
IPA	intellectual property agreement		
IPR	intellectual property rights		
JAMPRO	Jamaica Promotions Corporation (for export promotion)		
JCTU	Jamaica Confederation of Trade Unions		
LDC	least developed country (a list of LDCs is defined by the UN)		

Foreword

The Uruguay Round agreements and the accession of Mexico to the North American Free Trade Agreement (NAFTA) will significantly transform the trade policy framework in which Commonwealth Caribbean countries will operate over the next decade. It will offer them new trading opportunities, particularly in the medium to long term. In the short term, however, they will face some transitional problems, mainly because of the erosion of preferential access they now enjoy in their major markets. Governments of Commonwealth countries in the region will need to formulate appropriate policy responses to realise the benefits from and adjust to the changes in the global trading system.

In response to a strong mandate from member governments, the Commonwealth Secretariat has been giving a great deal of attention in its work programme to assisting developing member countries in responding to the Uruguay Round and to other changes in the trading system. It has been doing this, inter alia, by undertaking a number of analytical and policy-oriented studies of interest to a wide cross-section of member countries.

This study, prepared for the Secretariat by Dr Michael Davenport, provides a comprehensive analysis of the combined impact of the Uruguay Round and NAFTA on the Caribbean countries. It also makes recommendations on policy options available to them. It is hoped that the study will provide a good basis for member governments in assessing the policy implications of the impending changes in the international trading system in the context of their economies, and formulating appropriate responses.

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Executive Summary

- ❖ The Uruguay Round agreement was actively supported by the developing world to further develop the rules governing international trade; in particular the developing world will gain from improved market access, for greater security against arbitrary use of instruments such as anti-dumping and countervailing duties and safeguard actions and from the improved disputes procedures;
- ❖ however, the direct trade effects are less benign in that the Uruguay Round agreement implies the erosion of preferential access to developed country markets – in the case of the Commonwealth Caribbean countries through the Generalized System of Preferences, through Lomé IV and through the Caribbean Basin Economic Recovery Act: on balance this means that the direct trade effects will be unfavourable;
- ❖ for some of these countries, the loss in the value of special access arrangements for exports of sugar or rice to the European Union will be most significant (Barbados, Guyana, Jamaica, St. Kitts and Nevis);
- ❖ bananas are particularly important for some of the countries: the new EU regime for bananas, though not in essence a Uruguay Round effect, implies major losses in export revenues for Belize, Jamaica and the Windward Islands (Grenada, St. Lucia and St. Vincent and the Grenadines);
- ❖ in tropical products, such as cocoa and coffee, in fish and in manufactures the Uruguay Round will lead to losses in preference margins on the EU and North American markets, which will discourage the expansion in these sectors: outside of clothing these effects will be limited;
- ❖ several Commonwealth Caribbean countries have been expanding their exports of clothing: the main result of the elimination of the MultiFibre Arrangement (MFA) quotas on developing country exports will be to undermine the special access the Caribbean countries enjoy, through Lomé, on the EU market and through the special tariff treatment of clothing made from US-formed and -cut cloth on the US market (807A products): the latter effect will mainly impact on Jamaica;
- ❖ the main direct effects of NAFTA on the Commonwealth Caribbean will be trade diversion to Mexico through the phasing out of tariffs and quotas on Mexican apparel exports to the United States over the coming five years: in the longer run, that is by the time all MFA quotas are eliminated at the end of ten years, this effect will be overwhelmed by the availability of much cheaper goods from the low income countries of Asia, particularly China and India;
- ❖ the Jamaican apparel industry, which largely depends on the special tariff treatment of 807A goods, requires NAFTA-parity treatment, i.e. tariff-free entry into the US and Canadian markets, to compete with Mexican apparel over the next five years: in order to survive in the longer term, the region's clothing industry will have to exploit its geographical and cultural closeness to those markets and probably shift into fashion or other niche products;

- ❖ in other goods, including certain chemicals and fuels, there may be small effects on Caribbean exports to North America through the erosion of preferences vis-à-vis Mexico: another area where the Caribbean could be hurt, given that Mexico now has a fixed ceiling on sugar exports to the US, is through squeezing Caribbean quotas when US production is high;
- ❖ the General Agreement on Trade in Services (GATS) will not radically improve opportunities for Caribbean services exports, particularly as the export of labour services is excluded: as regards services imports the Caribbean markets are already largely open: in the longer run the GATS heralds a more open trade regime in services, which will benefit Caribbean services exports to the extent the necessary comparative advantages can be developed;
- ❖ the most serious impact of NAFTA is likely to be through foreign direct investment: the relative attraction of investment in Mexico is increased: even where tariff differentials are nil or minimal, foreign direct investment (FDI) will be attracted to Mexico by the greater security of barrier-free access to the US and Canadian markets assured by NAFTA, than by the special access arrangements of the Caribbean countries to the US and Canadian markets which can be withdrawn at any time;
- ❖ the improved position of Mexico in regard to FDI applies both to US and Canadian investors and those from outside North America who are looking to supply the North American markets: outside investors will be encouraged by the liberal regulatory and fiscal environment established by the Mexican government which is not skewed in favour of NAFTA investors;
- ❖ the FDI benefits to Mexico will be slightly mitigated in apparel, where the Caribbean Basin Economic Recovery Act (CBERA) still gives an edge to Caribbean producers through less demanding rules of origin than those that apply to Mexican producers;
- ❖ evidence of a NAFTA effect on FDI statistics is not yet easily identified because of the difficulties of separating other factors, in particular the business cycle and political uncertainties;
- ❖ as regards policy options to improve the trading outlook of the Commonwealth Caribbean countries and offset some of the negative Uruguay Round and NAFTA effects, the EU could prevent the erosion of special access arrangements for sugar by decoupling the price offered to ACP producers from the intervention price paid to EU farmers: in bananas, quotas should be fully transferable among producer countries, a single quota should be established for the Windward Islands and additional funds should be set aside to assist in diversification into other export goods or services: in rice and other fruit and vegetables, restrictions, either through calendar limitations or tariff quotas, should be eliminated or substantially eased;
- ❖ the EU should ease its rules of origin on imports of manufactures from the ACP, which in some cases act as a major obstacle to developing new export sectors;
- ❖ in the short run, the Caribbean countries should press for NAFTA-parity, though that should not be limited to 807A apparel exports, where the benefits would largely be confined to Jamaica: however NAFTA-parity is necessary to ensure the survival of the 807A apparel sector over the next five years;
- ❖ NAFTA-parity arrangements are unlikely to assure equal treatment with NAFTA members in the tariff treatment of new export products, or any security from contingent protection such as

anti-dumping or safeguard actions which might be negotiated within NAFTA;

- ❖ full membership of NAFTA in its present or expanded form is the appropriate trade policy for the Commonwealth Caribbean countries: only full membership will ensure parity of treatment in the long term, as regard all trade and investment flows;
- ❖ membership would involve allowing tariff-free access to exports from other NAFTA members, though, taking account of the advantages of lower-cost inputs and the positive impact of competition, this could have positive effects in the medium term; also, experience with the existing NAFTA suggests that sectors that are particularly sensitive for employment or other reasons can be given longer to adjust;
- ❖ tariff-free entry might also have to be extended to the EU if the benefits of membership of the ACP group are to be retained: again this could have medium-term benefits rather than costs;
- ❖ CARICOM should be strengthened to accelerate the completion of the customs union, and later the common market, in factors of production: there is also a role for CARICOM in co-ordinating policy in tourism, transport, telecommunications and other sectors where there are clear gains from a regional approach: however, the most important function of CARICOM may be as a single regional organisation for negotiating membership of an expanded NAFTA.

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 multi-lateral 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 dis-

cussed 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.

The Structure of Trade of the Commonwealth Countries of the Caribbean

Table 1 gives the destination of exports from individual Commonwealth Caribbean countries. In that period 74 per cent of Commonwealth Caribbean exports went to the OECD countries, with almost half going to the US. When the Bahamas – not a member of the CARICOM customs union – with its considerable chemical exports to the US is excluded, the share going to the OECD was slightly smaller.

However, the table also points to the marked dispersion in the Commonwealth Caribbean countries' export patterns. The European export share varied from 1.2 per cent for the Antigua and Barbuda and 5.3 per cent for Trinidad and Tobago to 50 per cent for St. Vincent and the Grenadines. In the case of exports to other devel-

oping countries, the share varied from nearly half for Dominica to 7 per cent for Guyana. These discrepancies largely have their source in special trade arrangements, in the European Union for agricultural goods, and in the United States for apparel. This report will subject these to particular analysis. For almost every Commonwealth Caribbean country, one or more of these regimes is of particular importance and they will all to some extent be affected by the UR agreement or NAFTA.

Appendix Table 1 is based on data from the UN Economic Commission for Latin America and the Caribbean and from the CARICOM Secretariat. It does not cover all the Commonwealth Caribbean countries, but for

Table 1: **Geographical destination of Caribbean exports 1992-93(a)** US\$m. and per cent

	Expts US\$ m.	Industrial countries	US/ Canada	EU	Dev Countries	Western Hemisphere	CARICOM
Antigua	19	n.a.	14.6	1.2	n.a.	n.a.	66.7
The Bahamas	936	87.4	50.9	23.8	11.3	2.6	n.a.
Barbados	206	42.5	18.7	23.3	34.2	34.0	41.7
Belize	126	88.5	48.0	38.5	11.5	8.3	8.0
Dominica	100	52.8	7.0	43.2	46.7	19.6	25.8
Grenada	45	70.0	16.7	48.9	30.0	30.0	28.1
Guyana	387	91.8	46.6	41.7	7.2	6.3	4.3
Jamaica	1419	87.5	55.2	23.2	12.4	8.0	6.3
St. Kitts	27	84.5	55.8	28.3	15.4	15.1	10.6
St. Lucia	89	82.0	32.4	49.6	18.0	18.0	16.8
St. Vincent	94	64.9	4.8	50.0	31.9	31.9	33.6
Trinidad	1744	56.5	49.1	5.3	37.9	37.9	12.6
CARICOM(b)	5171	74.5	47.7	20.7	19.2	19.2	9.9
CARICOM(c)	4235	71.4	46.8	19.9	22.7	22.7	12.0

(a) except for Antigua (1989), St. Kitts and Nevis (1989-90), St. Lucia (1990). Intra-CARICOM data refer to 1990.

(b) excluding Antigua and Montserrat

(c) excluding The Bahamas

Sources: United Nations Directions of Trade, 1994, CARICOM Secretariat, Aggregate and Principal Domestic Exports, 1985-1990, 1993.

those it does cover, the shares of exports going to other Caribbean countries and to countries in South and Central America turn out to be low and falling. Trinidad and Tobago as a market for exports from Barbados, Belize and, in particular, Guyana has shrunk dramatically. Both South and Central America have become much less important markets for Caribbean exports. These trends mirror the growing importance of the United States as an export market. Where the share of exports going to the US is relatively low – Barbados, Guyana, St. Kitts and Nevis, St. Lucia and St. Vincent and the Grenadines – it is largely because trade is distorted by special access arrangements offered by the EU, in sugar or rice or bananas.

This is borne out in Appendix Table 2. Apart from Antigua and Barbuda, which made strides in the export of manufactures to the EU, the greater part of manufactured exports in 1991-92 went to the United States (65.1 per cent for the Commonwealth Caribbean as a whole) while the greater part of food and raw material exports went to the European Union (71.1 per cent). Raw material and fuel exports also tended to go to the US and, at least in the case of former, Canada. In short, there has been a substantial redirection of exports along with the change in composition out of food. Manufactures (including chemicals, i.e. SITC groups 5 to 9) accounted for 35.1 per cent of exports to the OECD. Petroleum and petroleum products, almost entirely owing to Trinidad and Tobago, accounted for 21.1 per cent.

But the most striking single aspect of change in the pattern of Caribbean exports over the last two decades has been the move out of food into manufactures. Table 2 illustrates this. Though the data refer to the Caribbean as a whole, not simply the Commonwealth Caribbean countries, the trends have been very similar. Despite these major steps to diversification, in most Commonwealth Caribbean countries the share of food and raw materials, SITC groups 0 to 4, still comfortably exceeds 50 per cent. There remains an important degree of dependence on tradi-

tional exports, sugar, rum, rice and bananas commodities whose markets are subject to special trade regimes rather than participation in the world markets. Among the new manufactured exports, apparel is particularly important, but here again Caribbean exports depend on special access terms to the US.

Table 2: Caribbean exports, shares by broad categories; 1970, 1980, 1985 and 1992, per cent

	1970	1980	1985	1992
all foods and feeds	35.2	16.4	21.3	21.8
agric. materials	1.1	0.3	0.4	0.3
mineral fuels	21.4	56.3	34.4	11.9
ores, non-ferrous metals	19.8	7.1	4.0	5.2
manufactures	19.9	18.8	37.4	58.4

Source: WB (1994a)

This shift to manufacturing has been much more evident in some countries than in others. Data on the significance of particular agricultural and clothing exports to the Commonwealth Caribbean countries, and their dependency on those exports, are given in Appendix Table 3 for 1991-92. In the case of Barbados 52 per cent of exports consisted of sugar industry products and clothing, with the former alone contributing 40 per cent. In the case of Dominica, St. Lucia and St. Vincent and the Grenadines, bananas dominated with 79, 73 and 58 per cent of exports respectively. For six countries out of 11, agricultural products (including fish) and clothing accounted for more than 50 per cent of exports to the OECD, for eight countries they accounted for more than 40 per cent of those exports. Agricultural products alone accounted for more than 50 per cent in four cases and more than 4 per cent in seven cases out of eleven.

For the countries as a whole, the share of manufactures has all but tripled in the period since 1970. Most of the dynamic export products have been manufactures. They cover a wide and impressive range, including boats, organic chemicals, office machines and toilet preparations

(Bahamas), inorganic chemicals (Bahamas and Jamaica), aircraft and aircraft parts (Bahamas and Guyana), footwear and cotton fabrics (Jamaica), travel goods and handbags (Antigua and Barbuda), power generating machinery (Trinidad and Tobago), and electric power machinery (Barbados). The list could be extended to include goods of a lower export value. However, the fact remains that most growth in manufactures has been in the apparel sector.

The major factors affecting the evolution of the overall levels of exports and changes in their geographical pattern over the past decade include:

- ❖ the expansion of opportunities for duty-free (CBI) access to US market and CARIBCAN access to Canada;
- ❖ the establishment of CARICOM;
- ❖ improved access to EU markets through the Lomé Convention;
- ❖ loss of preferential margins with the expansion of special access to new countries, in particular to the andean Pact and to Eastern Europe;
- ❖ loss of competitiveness – in some cases through an overvalued exchange rate arising through Dutch disease problems (especially Trinidad and Tobago);
- ❖ economic crises in some of the larger Caribbean countries – Jamaica, Guyana, Trinidad and Tobago, Barbados – which damaged trade linkages with the smaller islands;
- ❖ weakness in the US dollar which led to the closure of a number of US subsidiaries in the Caribbean countries in the 1980s;
- ❖ recession in OECD countries from 1989 or 1990 onwards.

This report cannot make an exhaustive study of the roles of these factors. But they emphasise the importance of factors outside the textbook

process of finding and developing new market opportunities as they emerge through changes in technology, tastes or income growth, with the potential exporter basing his competitiveness, if not on comparative advantage, then on product differentiation and economies of scale. Among the Commonwealth Caribbean countries, changes in export structure have largely resulted from changes in the formal barriers to access to different markets.

Improving access to the regional market was, of course, the justification for CARICOM. The role of the customs union, which was established in 1973, can to some extent be judged by the growth of intra-union trade, though tariff-free trade among member states is not yet fully realised. The share of intra-union exports in total domestic exports has fallen from 12.2 per cent in 1985 to 11.9 per cent in 1990 (CARICOM 1993). For Barbados it rose from 14.2 per cent to 41.7 per cent. For the member states of the OECS it fell from 41.2 per cent to 23.1 per cent. In particular for St. Vincent and the Grenadines it fell from 61.7 per cent to 33.6 per cent. For Jamaica it fell slightly – from 7.5 per cent to 6.3 per cent. Again the shares of intra-union trade reflect the importance of special preferential arrangements with the DMEs and the evolution of these arrangements.

Trade in services: Appendix table 4 gives some details of net balances in overall services and the transport and travel components. The positive balances on the travel account are mainly due to tourism which has been making an increasingly important contribution to the current account balances of several countries. Tourism has expanded rapidly in Barbados, the Dominican Republic, Jamaica and the OECS islands. It shows a negative balance in Trinidad and Tobago, though the situation there is improving rapidly. For most countries the transport account is a negative item in the balance of payments and, in some cases, a significant drain on foreign earnings. In some cases, Dominica, Grenada and St. Vincent and the Grenadines, it almost offsets the significant earnings on the

Table 3: Jamaica, exports of commodities, 1992, \$ 000

SITC Section	1988		1992		exports 1992 US \$m.		
	\$m.	%	\$m.	%	US	UK	Canada
Food	171.6	19.4	209.6	19.9	31.6	131.4	5.0
Beverages, tobacco	36.8	4.2	35.3	3.4	12.1	4.8	2.9
Crude materials	472.8	53.5	566.7	53.8	168.4	40.8	107.8
Mineral fuels	18.8	2.1	10.1	1.0	1.5		-
Chemicals	20.7	2.3	25.8	2.5	6.3	1.4	0.1
Manufactured classed by material	15.9	1.8	19.2	1.8	5.6	0.4	0.1
Machinery, transport equipment	19.6	2.2	20.3	1.9	7.1	1.2	0.4
Miscellaneous manufactures	126.9	14.4	165.8	15.7	152.6	0.1	22.8
Total	883.0	100.0	1,052.8	100.0	386.3	180.1	180.2

Source: Statistical Institute of Jamaica (1993)

travel account. A number of Caribbean countries have insisted in recent years on the importance of improving their own air services for tourists.

In the case of Jamaica, the share of traditional exports (bauxite, alumina, sugar and bananas) has fallen from 92 per cent to 52 per cent between 1980 and 1992, while apparel exports rose 38-fold in dollar terms, or from 13 per cent to 30 per cent of total merchandise exports (see Jamaica Confederation of Trade Unions, 1994). These data refer to total exports, including re-exports. More importantly they include exports of the Export Processing Zones¹, which now account for the greater part of apparel exports.

Largely because of the exports of 807A goods, that is apparel made up from US-formed and cut fabrics, the United States has displaced CARICOM as the principal market for Jamaica's non-traditional exports. Excluding the growth of these exports – directly related to their favourable tariff treatment and the foreign investment they have stimulated – Jamaica's trade at the SITC one-digit level has been stable in recent years (see Table 3). Most traditional agricultural export volumes, including sugar, citrus products, cocoa and coffee, have tended to be flat – apart from weather-related fluctuations – or declining (pimento).

Bananas have been an exception in more than doubling in export volumes since 1988.

Bananas account for some 60 per cent of the activities of Jamaica Producers Group Ltd., formerly Jamaica Banana Producers. The change in name reflects diversification into other fruits and vegetables (citrus, mangos, pawpaws, yams, sweet potatoes etc.).

In dollar terms, bauxite and alumina exports combined, despite volatile prices, have been stable. Among non-traditional exports there has been a steady reduction in the value of mineral fuels. Otherwise, there have been small increases over the last five years in chemicals and manufactures, including textiles outside the EPZs.

The only new export products to have been developed in recent years on a substantial scale have been tropical and winter vegetables and tropical fruits. Non-traditional food exports have increased 70 per cent over the last five years. The most important are yams, dasheens, pumpkins and mangoes, but in total, non-traditional foods, which is a broadly defined category, still only account for some 5 per cent of total (non-EPZ) exports.

The tourist industry was boosted by tax advantages instituted in 1992. In 1994 new projects were up 75 per cent and were worth over J\$ 8 billion. Alongside traditional beach holidays, operators are moving into ecology tours, and health care and culture packages (*Courier*, No. 146, July-August 1994).

Trade Preferences and Policies of the Commonwealth Countries of the Caribbean

The Generalised System of Preferences

While, under the UR agreement, the reductions in tariff barriers are substantial, in many sectors the developing countries enjoy preferential access under GSP, and these MFN tariff reductions will actually erode their margins of preference. As regards the Commonwealth Caribbean countries this only affects (i) their exports to developed market economies (DMEs) outside the EU, the US and Canada and (ii) exports to the US, Canada and the EU which are excluded from the CBI, CARIBCAN and Lomé schemes respectively. However, the only excluded Commonwealth Caribbean exports of major significance are apparel exports to the US which, in any event, are omitted from the US GSP scheme.

The share of Commonwealth Caribbean exports going to the OECD countries outside of North America or the EU is generally small. But there are some important trade flows which take advantage of GSP preferences: boats from Antigua and Barbuda (7.5 per cent of the country's total exports to the OECD in 1991-2), the Bahamas (8.3 per cent), and St. Vincent and the Grenadines (1.5 per cent), cocoa beans from Grenada (10.1 per cent), fish and crustaceans from Guyana (3.3 per cent) and St. Vincent (15.1 per cent), rum from Jamaica (0.9 per cent)². Jamaica also exports some apparel to the other OECD countries (undergarments account for 1.7 per cent of total exports to the OECD). Outside the United States, Jamaican exports of textile products are generally not subject to MFA quotas.

GSP tariffs were not discussed in the Round because the US and EU argued that they are discretionary, non-negotiable concessions. However, as the GSP schemes come up for

renewal, GSP tariffs are likely to be adapted to take the Round into account. GSP rates may be reduced in response to MFN tariff reductions, particularly in agriculture though, for industrial products, most GSP rates are already zero.

For a number of reasons many developing country exports to the developed countries do not receive GSP treatment. Many GSP schemes exclude or limit the preferences on particular products – the EU scheme *inter alia* excludes many minerals and metals, starches and some categories of leather and the US scheme excludes textiles and apparel. Secondly exporters sometimes find the schemes uneconomic where the preference margin is small or the rules of origin are not easily met. As a result the share of imports from GSP beneficiaries which actually receive GSP treatment is often very low. For the OECD as a whole the share in 1992 was 23.7 per cent.

Of course South-South exports do not qualify for GSP treatment, though most of the transition economies in Eastern Europe as well as Russia and the Ukraine now operate GSP schemes. In addition, GSP tariffs are not bound in GATT terms and the various schemes can be wound up at the discretion of the donor country. Thus, MFN tariffs are still far from being irrelevant to developing countries.

One immediate effect of reductions in MFN rates is then to damage Caribbean exports which enjoy GSP preferences. However, to the extent that many exports do not qualify for these preferences or are excluded for some other reason, cuts in MFN rates are clearly of benefit. UNCTAD has calculated the effects of the UR on GSP preference margins (UNCTAD 1994). Its report notes that, when exports of the developing countries are classified into seven groups,

trade-weighted average MFN tariff reductions are, with some exceptions for Canada and Japan, fairly consistently lower for developing country exports than for developed country exports. In fact, given the higher level of pre-Uruguay Round overall trade-weighted MFN tariffs facing imports from the developing countries in the markets of the Quad countries [the United States, Japan, Canada and the European Union], Japan again being the exception, this leaves post-Uruguay Round rates facing imports from the developing countries higher than those facing imports from all sources (p.24). In two cases – US and EU tariffs on natural resource-based products – the post-UR rates on imports from developing countries are higher than the pre-UR rates on imports from all sources.

When GSP rates are factored in, at their existing levels or the post-UR most favoured nation (MFN) rates, whichever are lower, trade-weighted tariff averages facing the developing countries fall significantly but the UR effect is attenuated. On all imports the post-UR tariff averages on developing countries' products imported into the US and Canada are still higher than the average tariffs facing all imports into these two countries. One reason is the weight of high tariffs on textile and leather product exports in the developing countries' total. But even if textile products are taken alone, because of the developing countries' mix of these goods, the average GSP-adjusted tariff on their exports is still higher in the Canadian and US markets than the average for all imports of those goods. EU tariffs, adjusted for GSP rates, on non-tropical agricultural products from the developing countries are higher than those from all sources. The same is true of Japanese imports of industrial items excluding textile and leather products.

The main significance of this to the Caribbean is not so much that their limited GSP exports will be damaged, but that the UR will make diversification of exports into new OECD markets more difficult. Exports of the DMEs will generally enjoy greater tariff cuts than those of the developing countries. Exports of apparel,

footwear and non-tropical agricultural products, including, for example, winter vegetables, will benefit least.

The Lomé Convention

As regards the ACP States, most of the same considerations concerning the erosion of preferences apply a fortiori since Lomé trade preferences are less hedged with restrictions than those under the GSP schemes. It appears that close to 100 per cent of dutiable goods originating in the ACP States are granted preferential access in the EU market. Unfortunately the EU Commission does not make public statistics of the values of imports from ACP sources, in total or by commodity group, that receive preferential treatment vis-à-vis imports from other developing countries.

The Lomé Convention provides for preferential access to the EU market, at least equivalent to GSP treatment and guaranteed for the life of the Convention, currently ten years. In manufacturing, this preference is constrained by rules of origin, though derogations from these are available – normally granted readily according to the Commission – on application to Brussels.

Under Lomé IV, Commonwealth Caribbean exporters have tariff- and quota-free entry into the EU market with respect to all manufactured goods except rum (see below). ACP States are not subject to MFA quotas. For agricultural goods there are special preferences, generally tariff-free and NTB-free access for products not produced under Common Agricultural Policy (CAP) regimes or not competitive with such products (e.g. cane sugar competing with beet). For CAP or CAP-competitive goods, including rice, there is generally some alleviation of the tariff or variable levy.

Prior to the implementation of the UR agreement, the three main instruments of preference in agricultural trade with the EU were: derogation from tariffs, subject, for certain fruits and vegetables, to the marketing timetable, though

Table 4: Share of selected products in exports to the European Union, 1988-93, per cent

		1988	1989	1990	1991	1992	1993
Belize	Bananas	34.9	38.0	32.9	30.0	32.4	42.4
	Sugar	50.8	50.1	57.3	56.3	56.2	40.6
St. Kitts/Nevis	Sugar	85.3	93.4	98.2	98.0	77.2	93.7
The Bahamas	Rum	15.5	11.0	13.9	17.1	13.8	11.8
Dominica	Bananas	93.2	83.0	92.2	94.2	88.6	83.6
	Sugar	0	9.6	0	0	7.1	9.1
Jamaica	Bananas	10.3	6.6	15.5	17.7	16.5	14.3
	Sugar	29.1	20.5	20.1	22.1	22.1	20.6
	Rum	4.1	1.9	2.4	2.3	2.6	2.2
St. Lucia	Bananas	96.6	96.2	96.7	95.5	91.3	93.3
St. Vincent	Bananas	75.6	79.6	86.3	89.8	62.4	48.7
Barbados	Sugar	71.5	44.4	65.1	73.6	67.4	58.2
	Rum	2.9	6.3	4.7	3.5	3.9	4.4
Trinidad/Tob.	Sugar	13.7	11.5	10.9	13.8	13.3	15.3
	Rum	16.7	24.6	28.1	26.0	42.4	47.1
Grenada	Bananas	36.1	38.4	48.5	47.8	49.6	24.5
Guyana	Rice	13.5	8.3	10.0	9.7	4.2	6.6
	Sugar	44.2	54.7	56.8	55.4	71.6	62.7
	Rum	9.1	9.4	9.4	8.3	5.3	11.2
	Bananas	10.5	8.3	7.3	10.7	9.4	15.1
Total	Rice	4.1	2.5	2.5	2.2	1.3	1.0
	Bananas	19.7	14.8	17.2	17.6	17.0	15.7
	Sugar	14.9	13.6	13.6	15.4	17.4	15.2
	Rum	5.1	5.7	7.0	7.5	8.3	9.0
	4 products	43.8	36.6	40.3	42.7	44.0	40.9

Source: COMEXT data bank

for most CAP products tariffs were small and used to supplement variable levies; reductions (of about 50 per cent) in the variable levy, though in many cases subject to tariff quotas, on maize, millet, sorghum and rice, poultry meat, pig meat and dairy products; and specific quotas for beef, sugar, rum and bananas. Since the beginning of 1995, the EU's variable levies and other agricultural NTBs have been tariffed. Most CAP products the Lomé countries now enjoy tariff-free or tariff-reduced quotas. But it is the quotas for sugar and bananas that really count for the Commonwealth Caribbean countries, with the special access arrangements for rice being of major significance for Guyana (see Table 4).

Under the Sugar Protocol to Lomé IV the EU guarantees to buy specific quantities from par-

ticular ACP States at a price negotiated annually but which in the past has closely followed the price guaranteed to EU sugar beet growers. A significant fall in internal prices would likely be reflected in the price paid for ACP sugar. Between 1986 and 1993 the ACP Guaranteed Price had fallen in nominal terms by 3.5 per cent and, in real terms, when deflated by the price of tractors or centrifugals or by the UK retail price index, by 21 to 33 per cent (virtually all the sugar is sold to the UK).

Under Protocol 5 of Lomé IV, rum from the ACP States is admitted to the EU duty-free in quantities determined on the basis of the largest amounts imported over the last three years for which statistics are available, increased by an annual growth rate of 37 per cent on the UK

market and 27 per cent on other EU markets. The abolition of the Community tariff quota is projected for 1996. The Bahamas, Guyana, Jamaica and Trinidad and Tobago supply about 66 per cent of the world exports of rum and are generally perceived as being competitive in the sector.

A new and controversial **banana** regime has been established by the EU and has come into operation in 1994. Up to 1993 the EU market was compartmentalised with certain Member States maintaining quotas or import prohibitions to preserve markets for their traditional suppliers. These mechanisms were inconsistent with the 1992 Single European Market. The difficulty in finding a mechanism which continued to give special access to the traditional suppliers within a single market for bananas was compounded by the need to invent a regime that could be justified under GATT rules, particularly in a year when the UR negotiations were coming to a head. In the event GATT has condemned the regime and both the Latin American and the ACP exporters feel aggrieved by the new arrangements.

The new regime depends on the use of tariff quotas and differential tariff rates to maintain markets for the ACP suppliers vis-à-vis the more price competitive dollar banana producers of Central America, Ecuador and Colombia. EU supplies – from Martinique, Guadeloupe, the Canaries, Algarve and Crete – are not restricted. Quotas based on traditional imports from ACP sources enter duty-free (up to a total 857, 000 tonnes) while the dollar banana producers, together with non-traditional ACP production (above-quota amounts from traditional suppliers or imports from new ACP suppliers), are limited to a tariff quota of 2.1 million tonnes for 1994, rising to 2.2 million tonnes in 1995 with a duty of 75 Ecu/tonnes (roughly 15 per cent) or zero in the case of the ACP. In this way the previous importers and processors of ACP or EU imports are given an incentive to continue with those suppliers. Imports above the tariff quota are subject to a prohibitive tariff.

A number of Commonwealth Caribbean

countries, in particular the Windward Islands, are still very dependent on exports of bananas. Some discussion of the details of the regime is given in Appendix A. The general conclusion is that, if the regime survives further possible complaints in the WTO framework, it could provide a lifeline – in the form of stable markets but at significantly reduced prices – for the Caribbean producers until 2002 when it is due to be ended. What is critical is that the process of diversification is accelerated, so that the end to the regime does not leave the most dependent countries with vast gaps in their export revenues.

Under Annex 40 of Lomé IV the ACP States have a preference in their exports of **rice** to the EU in the form of a reduction in the import levy of 50 per cent together with a specific Ecu reduction depending on the nature of the rice, all up to a maximum of 125,000 tonnes of husked rice equivalent and 20,000 tonnes of broken rice. Among the Commonwealth Caribbean countries, only Guyana is a significant exporter of rice. But there have been complaints from Guyana and Surinam – also a major rice exporter – that present rice quotas are insufficient.

The Mid-Term agreement on the Uruguay Round already saw some reductions in ACP tariff preferences on **tropical beverages**. The Final Act sees further erosion of preferences on most of these products. In some cases, ACP preferences have been eliminated by bringing MFN tariffs down to zero. This has been the case in cocoa beans and coffee beans.

The role of **other ACP preferences** in Commonwealth Caribbean exports is at best ambiguous. Through a comprehensive study of detailed ACP export data, McQueen and Stevens (1989) identified a set of non-traditional products where there has been an encouragingly rapid growth of ACP exports of new commodities; but the growth at issue in almost every instance was of the exports of some African or Pacific country. Even then the results could be interpreted in different ways. McQueen and Stevens (1989) interpreted them (including those on agricultural products) as evidence of

the value of preferences and of further potential, though admitting that, within their sample, there seemed to be little correlation between success and the depth of the preference margin. Davenport and Stevens (1990) argue that tariff preferences per se have had no clear effect on the ACP exports of **crude or processed tropical products** relative to developing country exports as a whole.

The only Commonwealth Caribbean country to feature in these results was Jamaica and the only significant performance was in miscellaneous cut flowers (CN 060319) and outer garments, knitted or crocheted (CN 6005). Since those data were collected, Jamaican exports of cut flowers have stagnated.

The Caribbean Basin Initiative (CBI) and CARIBCAN

Under the Caribbean Basin Economic Recovery Act (CBERA) of 1990, which extended the original 1983 Act, Commonwealth Caribbean countries enjoy tariff- and quota-free access to the US market for all goods, subject to a short but critical list of exceptions. These exceptions include most textiles and apparel, some leather goods including footwear, petroleum and petroleum products, canned tuna and certain agricultural products. Tariffs on handbags, luggage and most leather goods other than footwear were reduced by 20 per cent in five equal annual stages beginning in January 1992. Ethanol and ethyl alcohol, sugars, syrups, molasses and beef and veal are eligible for duty-free entry only if the exporting country has submitted an acceptable stable food production plan. Sugar exports are subject to US quotas which vary from year to year.

Exports benefiting from CBI access are subject to rules of origin, which basically require that:

- ❖ 35 per cent of value added be contributed by the country in question, though this may be cumulated over CBI countries and up to 15 per cent may take the form of imports from the United States;

- ❖ a substantial transformation takes place in the CBI country, which is now interpreted as a shift in HS classification.

The benefits of the CBI programme over those of the US GSP are that:

- ❖ the CBI is not time-limited as is the GSP – thus it is more likely to stimulate FDI;
- ❖ the CBI allows for cumulation to meet the rules of origin whereas the GSP does not;
- ❖ designated GSP beneficiaries may be graduated from the programme – losing all benefits – whereas there is no graduation from the CBI. Also there is no country-product graduation comparable to the GSP competitive-need limits;
- ❖ there are additional financial provisions under the CBI including scholarship assistance and agricultural infrastructure support.

The main Commonwealth Caribbean exports products benefiting from the CBERA are carboxylic acid drugs (Bahamas), steel wire rod (Trinidad and Tobago), ethyl alcohol and raw sugar (Jamaica), switches for switching (sic) (St. Kitts and Nevis), rum and yams (Jamaica), frozen orange juice (Belize), methanol (Trinidad and Tobago), electrical resistors (Barbados). In recent years the share of manufactured goods has risen at the expense of food and raw materials.

The strong growth of the share of Trinidad and Tobago has been due to exports of iron and steel rods and bars. Among the smaller Commonwealth Caribbean countries, Belize was the principal supplier under the CBI of frozen orange juice. The rapid growth in Dominica's exports was largely owing to increased consignments of grapefruit juice and ginseng. The sharp decline in CBI exports by St. Vincent and the Grenadines may have been associated with the closure of a tennis racket factory, a significant blow to hopes that the CBERA would bring a wave of new manufacturing to the smaller

Table 5: US imports under the CBERA, 1986-90, \$ 000

	1984	1990	1992	1993	Total US imports, 93 \$m.	CBERA impts. as % total US imports 93
Antigua	114	675	324	1,110	14.8	7.5
Bahamas	0	8,578	93,324	167,110	341.5	48.9
Barbados	13,376	15,198	15,478	20,176	34.0	59.3
Belize	4,621	18,566	23,733	12,526	49.0	25.6
Dominica	9	1,330	1,008	1,293	5.8	22.3
Grenada	2	2,809	1,081	144	7.9	1.8
Guyana	n.a.	521	1,202	1,242	87.9	1.4
Jamaica	44,737	60,689	48,154	76,451	710.3	10.8
St. Kitts	6,757	10,136	14,172	15,985	23.8	67.2
St. Lucia	1,413	3,552	3,935	4,463	31.3	14.3
St. Vincent	55	1,517	165	233	4.9	4.8
Trinidad	6,422	38,274	44,695	44,593	783.7	5.7
total	77,506	161,845	247,271	345,326	2,094.9	16.5
Jamaican exports as % of total	57.7	37.5	19.5	22.1	33.9	

Source: USITC (1994)

islands. The factory appears to have failed when weakness in the US dollar rendered imports uncompetitive.

US imports under the CBERA for selected years are shown, together with total imports in 1993, in Table 5. The total value of exports benefiting from the CBERA has been rising rapidly though only 16.5 per cent of Commonwealth Caribbean exports actually benefited in 1993. This figure is low because US imports duty-free under the MFN tariff schedule of under the United States Generalized System of Preferences are included in the denominator. Taking US imports from all CBERA countries, 21 per cent in 1993 entered duty-free under the MFN, 18.5 per cent under the CBERA, 21.5 per cent under the special regimes for goods manufactured from US inputs, and 5.2 per cent under the GSP and other preferential schemes (USITC, 1994). Where a product could benefit from either the CBERA or the GSP it is classified as entering duty-free under the CBERA which is the more advantageous of the schemes. However, that does make the statistics difficult to interpret.

Another reason for the rather disappointing share of Caribbean exports benefiting from the CBERA is the relatively low utilisation rate. Since some goods could enter the US duty-free under either the CBI or the GSP, the statistics cannot separate CBI take up from GSP take up. But if we assume that in all cases CBERA duty-free access would have been chosen over GSP duty-free access on the grounds that the eligibility rules favour the former, then the utilisation rate is 61 per cent (USITC, 1994).

The reasons for the low utilisation of the CBI preferences probably include the rules of origin, the failure to supply a satisfactory stable food production plan for certain agricultural products, ignorance of the opportunities on the part of exporters or the bureaucratic hassles associated with the required customs pre-clearance. The relative weight of these and other explanations could usefully be studied with a view to improving the utilisation rate.

Normal textile and apparel items are not included in the CBERA scheme. However, the Caribbean countries enjoy special preferences in

respect of textile and clothing exports under HS 9802-00-60 and 9802-00-80 (previously 806.30 and 807A). Under these tariff heads, metal articles made of US metals and articles of apparel which have been made out of textiles formed and woven in the United States are subject to duty only on the value added outside the US. Only in the case of apparel is this derogation used substantially and, in that sector, it is of strategic significance for Jamaica, though Trinidad and Tobago also has a Guaranteed Access Level (GAL) agreement with the US.

CBI countries have, since 1986, been able to initiate bilateral agreements with the US that will guarantee levels of access for qualifying textile and apparel products. These GALs are separate from the MFA or other quotas on products that have not been assembled solely from US-made and US-cut fabrics. Certain 9802-00-80 products, notably footwear, handbags and luggage assembled from US components, are now eligible for duty-free entry to the US – NAFTA-parity already applies – but this does not include the apparel products of most interest to the Commonwealth Caribbean countries, notably Jamaica.

The share of **Jamaican** exports under the CBERA rose up to 1988 but has been falling. Jamaica uses the scheme mainly for exports of ethyl alcohol, sugar, rum, yams, cigars and beer in that order. For Jamaica exports of apparel from US-formed and -cut fabrics are more important, accounting for \$294 million in 1993 as against \$76 million under the CBERA (JCTU, 1994).

Under **CARIBCAN**, the region enjoys tariff-free and quota-free entry to the Canadian market for most manufactured exports, the exclusions being similar to those excluded under the CBI II.

CARICOM and other regional trading arrangements and policies

After independence most of the English-speaking islands joined together to form the Federation of the West Indies. The Federation was dissolved in 1962 and the member states moved on to independence on their own, or in the case of some of

the smaller islands, to self-government under the British crown. The appreciation of their common cultural heritage and awareness of their common economic interests resulted in the establishment of a number of joint enterprises – including the University of the West Indies and a Caribbean Free Trade Area (CARIFTA). The latter expanded and deepened into a customs union, CARICOM³.

The CARICOM countries have in principle a Common External Tariff (CET) though there are many formal exceptions to that principle – for example the least developed countries (LDCs) are not required to abide by the CET for non-competing products – plus some which are unsanctioned⁴. CARICOM has made an offer under the UR formulae which will reduce the unweighted average CET to around 13 per cent by 1998 from about 20 per cent in 1991 (World Bank 1994a). Tariffs will range from zero to 20 per cent, with the exceptions of agriculture products at 40 per cent and certain revenue raisers at above 20 per cent. Agricultural inputs and certain non-competing inputs in the OECS and Belize will have zero tariffs. Agro-industry products, apparel, non-competing final goods and general manufactures will be rated at 20 per cent, competing intermediate inputs at 15 per cent and competing primary inputs, competing capital goods and selected export products at 10 per cent.

The CARICOM countries established a timetable for tariff reductions in advance and independently of its formalisation as the UR offer. These reductions in general go beyond the requirements of the Uruguay Round agreement in agriculture and formed the basis of the Caribbean countries offers in industrial goods.

Despite the objective of a CET, the CARICOM member states have, since the outset, maintained their own NTBs, both licensing arrangements and other quantitative restrictions, and public sector monopolies, and supplementary tariffs – sometimes known as stamp duties. Considerable progress has been made in reducing these, to some extent under prodding from the Bretton Woods institutions

Table 6: Shares in total exports by SITC 3-digit category: simple correlation coefficients (a)

Colombia	Venezuela	Other Carib.	Central America	Mexico	Canada	% expts. (b)
CARICOM	0.61	0.40	0.04	0.53	0.11	0.91
Colombia Venezuela		0.10	0.10	0.93	0.17	0.89
Other Carib.			0.17	0.04	-0.03	0.93
Central America				0.02	-0.05	0.79
Mexico					0.34	0.64
Canada					1.00	0.58

(a) Based on 16 most important exports at 3-digit SITC level of each country

(b) per centage share of exports used in calculations

through the structural adjustment programmes which they have encouraged across the region. Guyana, Jamaica and Trinidad and Tobago have largely eliminated their NTBs and foreign exchange licensing requirements.

In most Commonwealth Caribbean countries, NTBs are still common. The World Bank has identified 43 in Barbados, 26 in Belize and significant numbers in the OECS (from which other OECS members, but not CARICOM members per se, may be exempt) (World Bank 1994a). Barbados, Belize and the OECS countries still use marketing boards with import monopolies, often for foodstuffs. In Dominica and Grenada the profits from these are used to subsidise exports or export-related activities (World Bank 1994a). The CARICOM itself has organised an NTB system – the Oils and Fats Agreement (OFA). This requires the countries in deficit in these products, Barbados, Jamaica and Trinidad and Tobago, to buy them from the surplus countries, i.e. the eastern Caribbean states, at prices significantly above world levels. Clearly, most of these NTBs and export subsidies are inconsistent with the UR Final Act and will gradually have to be phased out.

The decline in the share of intra-CARICOM trade is associated with the series of economic crises, and policy responses, which have damaged the import capacity of the larger states. Intra-CARICOM trade largely took the form of bilateral links between the smaller and the larger islands, rather than among the former or the

latter. These links were damaged by external balance crises and austerity measures in Jamaica, Guyana, Barbados and Trinidad and Tobago. There have been some other specific trade policy-related factors, such as the rice shipped to Jamaica under PL480, which subsidises US export sales of agricultural surpluses, edging out rice imports from Guyana.

With recovery and economic stabilisation in the larger Commonwealth Caribbean countries, one would have expected some recovery in intra-CARICOM trade but at least by 1992, as a proportion of total trade, it was still well down on 1982 levels. There is perhaps an unwillingness to make the effort to build up intra-CARICOM trading links when the OECD markets are in general more predictable.

The agreement with Venezuela provides for tariff-free entry of a range of CARICOM products into Venezuela for a period of five years. The arrangement establishes one-way tariff preferences. The arrangement with Colombia is broadly similar but includes some of reciprocity – which is at variance with the Lomé Convention which states that no country should have access to ACP markets preferential to that of the EU, an issue which has not so far apparently led to any reaction on the EU's part.

The share of CARICOM exports going to Venezuela and Colombia in 1990 was 1.2 per cent. If the shares going to the non-CARICOM islands and Central American countries are added, it would reach a total Caribbean market

of about 23 per cent⁵. In terms of share, this is significant. The question is whether the development of this trade through the establishment of a customs union, the harmonisation of standards and other measures to reduce non-tariff barriers, in conjunction with continued participation in the Lomé Convention, can add up to a viable alternative to membership of NAFTA.

For a customs union to be justified on economic welfare grounds, it must create trade rather than divert it to other member states. Trade creation requires that there be complementarity in exports, or potential exports, among the member states. Table 6 gives conventional correlation coefficients of trade shares among several groups, the larger CARICOM countries, the major Caribbean exporters outside CARICOM (Colombia and Venezuela) with which CARICOM has already reached preferential trade agreements, the countries of Central America, which would be eligible for membership of an ACS trading bloc, Mexico and Canada, the new privileged competitors on the US market, and the other Caribbean countries. The last group is dominated by Cuba, the Dominican Republic, Haiti, French Guiana and the Netherlands Antilles. Neither the Bahamas nor the Windward Islands (Antigua and Barbuda, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines) were included.

Appendix Table 5 gives rank correlation coefficients. The results support the view that CARICOM's exports overlap substantially with those of the other Caribbean countries, to some extent with those of Colombia and Venezuela, less with the exports of Mexico and Central America and, not surprisingly, least of all with Canada. The correlation coefficient between CARICOM and Central American exports would be higher, because of banana exports, if the Windward Islands had been included in the analysis.

These results largely conform with expectations, as do some of the individual country correlations. However, with the weight of clothing and bauxite/alumina in Jamaica's exports it is

surprising that its export structure does not correlate more highly with that of Mexico. Indeed, overall, these results suggest that Canada has as much to fear from Mexican competition on the US market as have the CARICOM countries, while the non-CARICOM Caribbean has more to fear than either. The Bahamas are clearly competing with Mexico as regards oil products.

As regards the formation of an ACS trading bloc, the results are not very encouraging. There is clearly considerable overlap in the export mix of CARICOM, Venezuela and Colombia and the non-CARICOM Caribbean. This is not surprising. The export mix of the Central American countries generally shows less overlap. Finally the figures suggest some complementarity between Central America, Colombia and Venezuela, Mexico and Canada. Neither of the Caribbean groups fits in very easily.

Calculations of similarity in export structure tend to raise more questions than they answer. Apart from all the technical problems of the appropriate degree of disaggregation and the optimal correlation statistic, trade liberalisation and trade preferences generate changes in specialisation. The export structure of developing countries is particularly fluid. What has happened in the past is mainly relevant as a guide to the potential for change in the future.

A common set of natural resources, similar shortages of skills and managerial expertise, are unfavourable factors for the establishment of a trading bloc. The many experiments with regional blocs in Sub-Saharan Africa have consistently disappointed. Yet in many of the Caribbean countries industrialisation is taking place. That may be the key to a differentiated export mix among member states which is one condition for a successful customs union (or, more generally, for a successful free-trade area). The other condition is that trade creation outweigh trade diversion. There can be no overall gain in welfare if the negative effects of imports being diverted from a lower cost supplier to a higher cost supplier outweigh the gains from trade creation.

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 – aftHÜ 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 producer 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.

Trade in Services

Existing trade

Appendix Table 4 gives data on trade in services as reported to the IMF in balance of payments returns. Details are given for net balances in overall services and the transport and travel components. The positive balances on the travel account are largely due to tourism which has been making an increasingly important contribution to the current account balances of several countries, in particular Barbados, Jamaica and the OECS Islands, over the past decade. It shows a negative balance in Trinidad and Tobago, though the situation there is improving rapidly. Other services sectors where regional exports have been growing include data processing, software development and testing, in-country medical services and offshore financial services. For most countries the transport account is a negative item in the balance of payments and, in some cases a significant drain on foreign earnings. In Dominica, Grenada and St. Vincent and the Grenadines, it almost offsets the significant earnings on the travel account. A number of Caribbean countries have insisted in recent years on the importance of improving their own air services for tourists.

Negotiations for GATS

The negotiations were complicated by the conflict of interests between the developing and the developed countries. Developed countries were particularly interested in the right to establish a commercial presence in other developed and developing countries, whereas developing countries were more interested in the liberalisation of labour-intensive services exports. Up till now many developing countries have had restrictions

on the imports of services from developed countries to protect national institutions and to keep national independence on rule-setting in the sector. Especially in the financial services sector, developing countries are concerned that liberalisation will intensify the competition to the extent that foreign suppliers of services will take over their national markets. On the other hand, the developed countries are concerned about the implications for the movement of labour in the liberalisation of trade in labour-intensive services.

The process of negotiation was through voluntary commitments to keep certain services sectors open to foreign competition. Participating countries could, and can still, decide whether to make an offer or not for a particular service. If an offer is made, a country can register restrictions on market access, limitations on national treatment of suppliers or derogations from the MFN rule. Restrictions may be specified as bound or not.

The approach has had two important side-effects, one benign and one hostile to trade in services. On the one hand, for services which are offered and for which the regulations are registered and bound, the information now found in many of the services offers will remove one of the major *de facto* barriers, lack of an accessible way for exporters to know what the restrictions are. On the other hand, inviting countries to list restrictions, could also be to invite regulation where it had not hitherto existed. This problem was not a feature of the Commonwealth Caribbean offers which were almost totally free of limitations or MFN exemptions.

Negotiations continue in three sectors, financial services, telecommunications and maritime services. The first is mainly of interest to the

Table 15: Summary of services offers to the Uruguay Round; numbers of sub-sector commitments in each sector

	Business	Communic'ns	Education	Financial	Health	Tourism	Recreational	Transport
Antigua	12			1		2	1	2
Barbados	3	1		1			1	
Dominica		1		1		1	2	
Grenada		1		1		1	2	
Guyana	5	1		5		2		5
Jamaica	18		3	4	1	2	1	2 (a)
St. Lucia				1	1		2	4
St. Vincent and the Grenadines				1	1	1	2	3
Trinidad (b)	7		1	1	3	3	2	3 (a)

Notified MFN exemptions:

a: Cargo reservation under the UN Convention on a Code of Conduct on Liner Conferences to fulfil obligations as a contracting party to the Convention.

b: Privileges accorded to signatories of bilateral investment promotion and protection treaties only.

Source: Services offers to GATT

Commonwealth Caribbean countries on the import side. The US wanted a code approach, that is, open access would be limited to those countries entering reciprocal commitments. This was rejected but the US is still threatening that, unless sufficient numbers of countries open their financial sectors, it will restrict national treatment to countries offering reciprocity. Shipping services were also treated differently because of US reluctance to liberalise. Here, all offers are still provisional. Maritime transport services are treated in Appendix B of this report.

The critical issue of the movement of labour-supplying services, important to developing countries, is addressed in an Annex to the GATS. It states that, although labour at managerial and technical level connected with the mobility of capital is not restricted, the Agreement does not apply to measures affecting the movement of natural persons providing services or residence on a permanent basis. This favours developed countries' suppliers of services. It means that the GATS will not advance the realisation of any comparative advantage in the supply of labour intensive services. The Commonwealth Caribbean countries, along with other developing countries, would have benefit-

ed through the liberalisation of the rules governing labour services, such as nursing or construction, performed in the importing country, particularly the United States.

For 19 of the 69 ACP States that are members of GATT, trade in services contributed substantially (over 50 per cent) to their export earnings over the period 1990-91. Out of these 19, six countries are in the Commonwealth Caribbean: Antigua and Barbuda (91 per cent), The Bahamas (82 per cent), Barbados (82 per cent), Grenada (72 per cent), St. Kitts and Nevis (72 per cent) and St. Lucia (60 per cent)¹⁴.

For some of these countries the liberalisation of trade in services will increase export earnings. The most important export for the Commonwealth Caribbean countries is, by far and away, tourism. Another service of some significance in Caribbean exports is information processing, often in the form of keyboard entry. This is included among business services. Tourism and data-processing have been opened up completely by the EU and Japan, which only maintain some reserves on labour movement. In the US, minor restrictions are imposed on tourism offices but, apart from that, these services enjoy free market access and national

treatment. Since these services have not been restricted by significant barriers in the past, the gain from liberalisation may be only small.

Imports of most services in most Commonwealth Caribbean countries are scarcely restricted by regulatory or other barriers. If there is surprisingly little – to someone coming from Europe – in the way of foreign-owned financial services establishments, it is largely because of market factors plus a lack of facilitation, rather than obstruction, on the part of the authorities.

Almost all the developing countries that have made offers have included the tourism sector, often to the exclusion of all others. Of course, tourism is in itself a service export industry. The offers, however, concern the import of services for the tourist industry, such as rules over the establishment of hotels.

An important motivation behind many of the offers is thus to demonstrate willingness, indeed enthusiasm, for foreign direct investment (which may be restricted to joint ventures with domestic investors or, at least, require some local participation) in sectors which can then proceed to export services. Many of the Commonwealth Caribbean offers were of this nature. Such a motivation can be seen in the recreational, transport and some of the business services as well as in the tourism subsectors.

Another motivation stems from the desire to attract FDI in areas where managerial or technical expertise available domestically may not be adequate to fill the requirements of local households (health, education, transport) or business requirements (e.g. legal services for exporters, telecommunications, computing, vocational education). In some cases, restrictions may be such that foreign-owned establishments are only permitted to fill in the gaps left open by domestic providers.

Of course a commitment to trade liberalisation does not require an ulterior motive. Still, the prospect of receipts of FDI inflows must encourage a certain liberalism as regards invitations to service suppliers to establish a commercial presence in the country.

The Commonwealth Caribbean countries' offers

Table 15 shows the main sectors where the Commonwealth Caribbean countries have made offers. For each country the exercise was novel and each approached it in an individualistic way. To give some idea of the range of activities involved, the Jamaican offer – which is the most comprehensive among the Commonwealth Caribbean countries – can be summarised. The list well illustrates the alternative motives for liberalising and/or giving publicity to the openness of a country to foreign service providers who might want to establish a commercial presence. In all cases where no restrictions are given, registration and licensing must be obtained.

Jamaica's offer on services: a summary

Business

- ❖ Legal services: consultancy in home law of the service provider and international law; local certification required
- ❖ Accounting, auditing and book-keeping services; licensing required
- ❖ Taxation services; licensing required
- ❖ Architectural services; joint ventures preferred. Board examinations, registration, licensing required
- ❖ Engineering services; joint ventures preferred. Board examinations, licensing required
- ❖ Urban planning and landscape architectural services; registration, board examinations, licensing required
- ❖ Medical services; registration, licensing, board examination required
- ❖ Services provided by nurses
- ❖ Software implementation services
- ❖ Data processing services

- ❖ Data base services
- ❖ R&D services on natural sciences
- ❖ R&D services on social sciences and humanities
- ❖ Interdisciplinary R&D services
- ❖ Real estate services involving owned or leased property; joint ventures preferred on a fee or contract basis
- ❖ Advertising services
- ❖ Market research and public opinion polling services
- ❖ Management consultancy services; local certification required

Education

- ❖ Primary Education Services; registration and local certification required
- ❖ Secondary Education Services; registration and local certification required
- ❖ Higher Education Services; local certification, registration, licensing required

Finance

- ❖ Life, accident and health insurances services
- ❖ Non-life insurances services
- ❖ Reinsurance and retrocession
- ❖ Services auxiliary to insurance (including broking and agency services)

(Under the current policy, financial entities should be at least 51 per cent Jamaican. This policy is now being reviewed with the objective of allowing fully-owned foreign establishments. However, permission is granted subject to a review of the applications on a case-by-case basis. The Superintendent of Insurance must be satisfied that the covers being offered by these companies will be supplemental to the industry

in situations where there is limited capacity in the market. In addition, he must also be satisfied that adequate funds will be deposited to cover the domestic liabilities of these companies.)

Health

- ❖ Hospital services; registration, licensing, local certification required

Tourism and travel

- ❖ Hotels and Restaurants
- ❖ Travel Agencies and Tour Operators

Recreational

- ❖ Entertainment Services

Transport

- ❖ Maritime freight transportation
- ❖ Passenger road transportation

Conclusions

Broadly speaking, because the offers on services in the UR are voluntary, and restrictions to the principles of national treatment and MFN can be registered, the economic effects of the Round in terms of generating trade will be small. At this stage, countries are not required to open their markets by liberalising their regulations. Since the regulations in place before the offers were made were not themselves reported, it is difficult to know to what extent liberalisation has taken place.

Contrasting interests and concerns made far-reaching liberalisation of trade in services difficult. Therefore the establishment of a good framework with clear rules and obligations for trade in services has proceeded further than the provisions for market access and national treatment. The GATS sets out the general obligations, such as transparency requirements, obligations relating to recognition requirements and the application of the MFN principle. The

establishment of GATT-type rules for services means that liberalisation will continue, possibly quite rapidly, in future MTN rounds.

In general, the increased transparency of trade in services and the simplification of the regulations targeted by the GATS will ultimately benefit all suppliers of services. Developing countries will benefit from an increase in foreign direct investment and advanced technological know-how which is likely to be attracted by the improvement of access to developing countries' markets. Nevertheless, future liberalisation in the services sector will pose some threat to countries which have to open up their markets for, especially capital-intensive, services from developed countries. Service suppliers in the developing countries will face stronger competition making the development of potential

national service sectors in these countries more difficult.

In the case of the Commonwealth Caribbean countries, the main justification for active participation in the GATS is the contribution of this sector to the momentum towards these ultimate gains. They have little to gain from other countries' liberalisation since labour services abroad are generally not covered and most of the other services of interest to the Caribbean countries are in unrestricted areas, in particular tourism. Insofar as their own offers are concerned, since their markets have in general been open to foreign providers in the past, these can only serve to spread information about those opportunities. To the extent they do attract additional FDI, they will have served a useful purpose.

Foreign Direct Investment

The impact of NAFTA

The calculations presented earlier have estimated the static effects of changes in tariffs and non-tariff barriers, including regulatory barriers. In reality, the so-called dynamic effects may be just as important – indeed a common practice among analysts estimating the effects of changes in trade regimes is to double the static effects to get the overall effects. The dynamic effects derive from the incentives to plan for future trade expansion through investing in plant and equipment in the sectors where foreign barriers are reduced, transferring technology and management skills from abroad, undertaking research into production techniques and market opportunities, training and human resource development in general. Most of these activities involve investment expenditures of one sort or another. Like trade itself, investment designed to enable future trade expansion may be created or diverted by changes in trade regimes, including multinational liberalisation as under the UR or the establishment of a free trade area in NAFTA. It is not surprising that the concerns of the Caribbean are as much to do with the diversion of direct foreign investment to NAFTA members as they are with the direct loss of exports.

As far as the Caribbean is concerned, the major concern is diversion of FDI towards Mexico, the principal competitor in those goods which the Caribbean exports. I have argued that the sector where trade diversion is likely to be greatest is apparel, particularly apparel exports from Jamaica. Jamaica is a witness to the mobility of international apparel companies, both American and from the Far East. If conditions of access to the North American market are clearly more favourable, after taking into account invest-

ment costs, labour costs, environmental and other legal and social legislation, and transport costs, these companies would have no hesitation in moving their operations, either in part or lock, stock and barrel to Mexico.

A report of the United States International Trade Commission analysed the extent to which NAFTA could affect investment in the assembly-type apparel industry in the CBI countries. The factors most often cited as favouring investment in Mexico over the Caribbean were:

- ❖ cost savings from tariff-free entry;
- ❖ opportunities for vertical integration and/or scale economies;
- ❖ elimination of quotas.

Against investment in Mexico were the projected appreciable changes in rules of origin which are not in all cases more liberal under NAFTA than under the CBI (CARICOM 1994)¹⁵. In the most sensitive products, free trade within NAFTA is reserved for apparel that is yarn-forward, that is not only must the fabric be made within NAFTA but the yarn must be woven within NAFTA. A lesser requirement is that a product be fabric-forward, that is the fabric must be made within NAFTA (similar to the requirement for Caribbean 807A exports to the US). Thus, for the most sensitive articles, the NAFTA rule is actually more demanding than the CBI rule. One of the reasons for the expansion of 807A exports from the Caribbean to the US was difficulty in meeting the GSP rules of origin. Now that NAFTA has imposed even stricter rules, at least for a subset of apparel products, it is perfectly possible that the rules may discourage companies from Mexico and

encourage them to stay in the Caribbean, or if they are not there already, to invest there.

Still, the cost savings from tariff-free entry of 807A-type goods may be quite significant – Mexican producers will be saved the tariff on the value-added by the Caribbean assembler, on average some 25 per cent of the fob value – since the peak rates of the US and Canadian tariff schedules include disproportionate numbers of items of apparel. 42 per cent of US imports of textiles and apparel faced pre-UR tariffs of over 25 per cent with significant numbers of tariffs in excess of 40 per cent. Even after the UR tariff reductions, there will be plenty of US tariffs on apparel in excess of 30 per cent.

As regards apparel exports subject to MFN tariffs and, in many cases, MFA quotas, the advantages of investing in Mexico are clear cut. The US and Canadian tariffs on imports from Mexico will be removed within five years and the MFA quotas phased out over the same period, roughly five years in advance of their final elimination under the UR Final Act. Mexico has also had an 807A-type derogation of tariffs on apparel assembled from US-formed and -cut fabrics. Now with quota-free exports to the US, it may be worthwhile resourcing some of the imported fabrics in third countries where the cheaper materials may justify the tariffs that have to be paid on them.

There may also be gains from scale economies for firms operating in Mexico that become available as the costs of importing inputs, perhaps in the form of fabrics, falls as the Mexican tariff is phased out. The market for these firms does of course include the local Mexican market.

On those goods where the CBI in principle does give tariff-free access to the US and Canadian markets but that benefit is not taken up, either because of the rules of origin, the bureaucratic costs or for other reasons, exporting to the US or Canada from Mexico will, within five years, be tariff-free. In this case, the advantage of producing in Mexico will be less clear cut because of the possibility that CBI utilisation rates could be rapidly increased.

Investment will clearly be affected by a myriad of other factors than ease of access under NAFTA – for example wage costs, locational advantages, transportation and other infrastructure facilities and fiscal and other governmental incentives. Under Section 936 of the US tax code, US investment in the Caribbean may be eligible for advantageous tax treatment. There are also certain fiscal aspects of NAFTA which give FDI in the Caribbean a certain limited advantage (see World Bank, 1994a, 101).

The UR does impose disciplines on Trade Related Investment Measures (TRIMs), which mean that NAFTA has not been able to introduce grossly distortive regulations favouring FDI from other members. Indeed, it even appears that Mexico has gone out of its way to be multilateral in its recent-promulgated foreign investment rules. The UR also requires that countries offer national treatment to overseas investors, though there is a five-year transition period for developing countries. Mexico has traditionally been highly unwelcoming to foreign investors, limiting the areas in which they could operate. Ownership was restricted in a number of sectors such as land, forestry, financial institutions, the media, oil extraction, petrochemicals and gas. However, in 1989 the first of a series of liberalisations took place.

Now the 1993 Mexican foreign investment law has effectively extended NAFTA's liberal investment regime to all other countries. Some sectors remain excluded, in particular oil, gas and petrochemicals, but the local content rules and export requirements have been dropped far in advance of any requirement under the UR. Although this multilateral liberalisation goes beyond what the UR or NAFTA require for the present, the UR and NAFTA do give some confidence that the new liberalisation will not quickly be undone. There are other, more tenuous but not necessarily less real, factors affecting investment decisions and which could lead to investment diversion to Mexico – or elsewhere in NAFTA – from the Caribbean. Simply being part of a large trading bloc must improve Mexico's attractiveness to foreign investors.

On the other hand the momentum for trade liberalisation may make investors think twice about relocating from the Caribbean to Mexico, or choosing Mexico in the first place on the basis of what might be ephemeral advantages. The potential gains from trade diversion for Mexico are dependent on the continuance of significant tariffs on US and Canadian imports from other sources, given that the UR will be broadly successful in eliminating the non-tariff barriers of the developed countries. If the liberalisation momentum continues, the favourable tariff differentials will be eroded in due course. Already there is talk of a new round of multilateral trade negotiations. After that has taken place, MFN tariffs should be largely confined to remaining sensitive products – which may still include apparel.

FDI in the Caribbean

As long as tariffs are significant obstacles to trade, in attracting third country investment, the Caribbean countries retain one significant trump card – exports can generally obtain tariff-free entry on the US, the Canadian and the EU markets.

Foreign direct investment has made a major contribution to filling the overall payments gap in a number of ACP Caribbean countries. Table 16 gives net inflows of FDI between 1987 and 1993¹⁶. For most countries these have fluctuated from year to year, in some cases indicating significant disinvestment. However, there has been a considerable increase over the period, with just an indication that net inflows into the region may have peaked in 1992. The experience of the region reflects that of the developing world as a whole. FDI has held up remarkably well despite the recessions in the developed countries and the emergence of Eastern and Central Europe, and the efforts of those countries to attract investment.

The main driving force behind FDI is globalisation. There has been a breakdown in the relevance of traditional national markets as

transnational companies seek to establish production facilities where costs are low, the regulatory and fiscal frameworks are benign and the political framework is predictable, in order to service regional or even world markets. It is part and parcel of this new order that parts for a single product may be fabricated in many different countries, and indeed that the product itself may undergo a number of manufacturing processes in different countries. Of course, the transnational corporations (TNCs) must take into account the costs of trade barriers on intra-company trade. They must also take into account the benefits of a large domestic market for the product in the country of its final processing.

On both these scores the Commonwealth Caribbean countries fare badly. Domestic markets are small. And there are still significant tariff and non-tariff barriers on trade, even within CARICOM, and even more so between the CARICOM countries and the non-CARICOM islands and Central America.

To offset some of these problems, a number of Caribbean countries have established export processing zones (EPZs). These allow trade to take place unburdened by import barriers on material inputs or semi-processed goods or export restrictions and taxes which still exist in some countries. Their establishment was boosted by the Special Access Programme whereby apparel and metal manufactures are admitted to the US market on favourable tariff terms if they are fabricated from US-produced steel or cloth. In these cases US firms have been attracted by low wages in the Caribbean region, though East and South Asian firms have also been attracted, in their case as a way to circumvent the MFA quotas on their exports of apparel to North America.

As of the middle of 1989, there were already nine EPZs in Barbados and seven in Jamaica (USITC 1991). The USITC also reports 14 new CBERA-related investment projects in Jamaican EPZs in 1992, including in the fruits and vegetables, cut flowers and house plants and electrical devices sectors. But US tariff concession on 807A apparel has been the greatest single

Table 16: Net inflows of foreign direct investment, 1987-93, \$ million

	1987	1988	1989	1990	1991	1992	1993
Antigua	39	31	41	59	52	20	15
The Bahamas	11	37	25	-17	0	7	-24
Barbados	7	11	8	11	7	14	n.a.
Belize	7	14	19	127	15	18	11
Dominica	10	7	8	8	11	14	10
Grenada	15	15	10	13	15	23	31
Guyana	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Jamaica	53	-12	57	138	127	87	139
St. Kitts	17	13	41	49	21	14	12
St. Lucia	15	16	27	45	58	46	50
St. Vincent	6	10	11	8	9	19	29
Trinidad	33	63	149	109	169	178	n.a.
Total exc. Guyana	213	205	396	550	484	440	n.a.
Domin. Rep.	89	106	110	133	145	180	183
Mexico	1,184	2,011	2,785	2,549	4,742	4,393	4,901

Source: IMF, *Balance of Payments Yearbook*, 1994

magnet for FDI in Jamaica, as well as in the Dominican Republic. Incidentally, by the end of 1992 there were 27 EPZs in the Dominican Republic.

The EPZs have generally helped the process of export diversification, though there has been widespread criticisms that (i) they have failed to promote skills, and (ii) there has been minimal vertical integration with the local economy. Part of the reason for the latter is the lack of financial incentive to buy local inputs or sell on local markets, problems that are being attacked by a number of fiscal derogations for local firms who trade with firms inside the EPZs.

A number of Commonwealth Caribbean countries have made other efforts to improve the climate for FDI. These efforts have often been undertaken in the context of policies to improve structural adjustment. In other cases, traditional fiscal incentives such as tax holidays have been instituted and restrictions on the repatriation of profits and capital and other disincentives, including sectoral investment restrictions or embargos and authorisation and registration procedures, have been reduced. Efforts are often

required to sell FDI to local people, who resent the privileges given to foreign firms and individuals and worry about their property rights.

Another approach is through signing bilateral investment treaties with developed countries which typically guarantee at least national treatment of foreign investments plus other elements such as the full compensation in the event of nationalisation. A few countries of the region have recently signed bilateral investment treaties (BITs), including Barbados and Trinidad and Tobago with the United Kingdom, Trinidad and Tobago with France and Jamaica with France, the United Kingdom and the United States. The practice is likely to grow, not least because any further regional preferences introduced by the United States, and most certainly membership of an expanded NAFTA, are going to require that such a treaty be signed.

Table 16 suggests that Jamaica and Trinidad and Tobago have gained particularly from FDI over the past decade. However, if the figures are related to the size of the economy a different picture emerges. Relative to GDP, FDI has in general been greatest in the small island states of

Table 17: Domestic and foreign investment in Jamaica, 1986-93, J\$m. and per cent

	1986	1987	1988	1989	1990	1991	1992	1993
Domestic Investment								
total, J\$m.	226.2	540.4	891.0	124.8	138.7	592.7	683.0	281.0
<i>per centage</i>								
agriculture	48.4	32.5	2.1	9.8	23.2	3.0	81.5	14.5
tourism	6.9	52.7	1.9	24.0	62.5	92.1	1.0	38.4
inform. proc'g.	5.8	2.3	–	2.2	0.6	0.8	–	1.0
manuf.	10.3	7.8	85.6	0.2	0.7	–	–	–
min'ls, chems.	21.7	0.5	0.2	–	–	2.8	10.8	7.9
textiles	5.8	3.7	0.3	42.9	9.7	0.1	1.1	1.2
other(a)	1.1	0.4	10.0	20.8	3.4	1.1	5.6	36.9
total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Foreign Direct Investment								
J\$m.	64.0	166.0	141.0	28.0	127.0	129.0	410.0	393.0
<i>per centage</i>								
agriculture	46.6	4.1	4.2	35.8	5.2	22.1	6.6	–
tourism	6.2	53.7	45.0	12.1	0.2	6.7	8.5	1.6
inform. proc'g.	2.8	–	0.1	–	3.1	1.2	3.9	27.7
manuf.	17.1	5.2	15.8	0.4	–	14.2	2.3	–
min'ls, chems.	–	–	–	–	–	14.8	5.4	1.0
textiles	23.8	31.1	22.2	11.6	82.9	13.9	9.6	34.7
other(a)	3.5	5.9	12.6	40.2	8.5	27.2	63.7	34.9
total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

a: includes investment in general services, film, small businesses and consultancies

Source: GOJ

the OECS. This investment has largely been in the tourist industry where it is clearly motivated by rather different factors from that in manufacturing. The same small country disadvantages are less constraining, though there have been widespread complaints about the difficulties (import licences etc.) and/or import duties on capital equipment which generally cannot be supplied locally.

Evidence of a NAFTA effect

It is not too early to expect FDI statistics to reflect some investment creation or diversion. The investment effect associated with the Single

European Market anticipated the event by several years. However, it is too early to decipher the trends in FDI, let alone their causes. Obviously there have been a number of important factors influencing FDI flows, not least the recession in the DME countries and the differentially-timed recovery process.

Clearly, FDI in Mexico grew much faster over the 1987 to 1992 period than it did in the Caribbean, nearly quadrupling in the former case but only doubling in the latter. It more or less tripled in the Dominican Republic. 1993 was the first year in which investors could have had any certainty about NAFTA's terms. Nevertheless, there could have been a significant inflow into

Mexico even earlier on the expectation that NAFTA would be agreed. There was certainly a surge in 1991 but it is also obvious from the table just how fickle FDI flows are. The establishment of a sound macro-economic policy stance may explain the investment surge more than NAFTA expectations. Moreover the inflows were almost replicated by Brazil where there was no possible NAFTA effect.

Thus, any clear trend or recent expansion of FDI in Mexico that might be associated with NAFTA is confounded by other factors, recession and political uncertainty in particular. In 1993 the US became even more dominant as the source of investment – but whether this had anything to do with NAFTA is impossible to say¹⁷. American or Canadian companies may divert investment because costs of production or transportation are lower in Mexico. Companies from a third country have the added incentive of avoiding tariff barriers, not only Mexican but United States and Canadian as well.

Thus, while all factors do not point in the same direction, NAFTA membership, together with Mexico's new welcoming policy, must, on balance, lead to the expectation of some diversion of FDI. This will not be confined to the textiles and apparel sector where the tariff (and

in the short-run quota) advantage is clearest.

In Jamaica, foreign investment has largely been concentrated in clothing and the tourist trade. As Table 17 indicates both domestic and foreign investment has been very lumpy. Single large projects can have a major impact on annual figures. The trends, however, are positive, with both the foreign and the domestic components expanding substantially since the mid-1980s. What the table does not reveal is any clear trend towards diversification of the productive structure. There are no identifiable upward trends in the shares of information processing, manufacturing, chemicals and minerals.

A more optimistic slant is given by USITC (1994), which, quoting JAMPRO, states that in 1993 over 100 projects benefited from FDI, worth \$19.3 million. However, only three of these were CBERA-related (with an investment value of \$1.4 million in agribusiness, mining, chemicals and castings), though a number of others were identified as likely to yield exports to the US (coffee liqueurs, bottled spring water, fruit puree, marble, bricks, bus assembly and refurbished auto parts). Clearly, FDI and diversification are proceeding hand-in-hand. The only question is whether the process is moving fast enough.

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 competitiveness 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 disaster. 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 wither 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 from 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 nor 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 harmonisa-

tion 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 pre-conditions 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 1997-98¹⁸. 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 an 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.

The Effects of the New EU Banana Regime

The share of EU banana imports not covered by Latin American exports comes almost exclusively from ACP states, Community overseas territories and to a small extent the Community itself. Under the import system which operated until 1993, certain Member States, viz France, Greece, Spain, Portugal, Italy and the United Kingdom, guaranteed markets to their traditional suppliers. These were either domestic producers (Guadeloupe and Martinique, Crete, the Canary Islands, and Madeira and the Algarve) or ex-colonies (Cameroon and Côte d'Ivoire, Jamaica, Windward Islands¹⁹ and Belize, and Somalia) by exonerating them from the Community's common 20 per cent tariff and limiting (or excluding) the imports of dollar bananas as those from Latin America are called.

Between 1984 and 1992 Latin America's share of the Community market for bananas was relatively stable. However, that conceals a downturn in the share when the new Member states, Spain and Portugal, which have their own sources in the Canary Islands and Madeira (and to a small extent the Algarve) joined the Community and an upturn in recent years. The Latin American share in EU import volumes had risen from 56 per cent in 1988 to 68 per cent in 1992, while the share in the value of EU imports rose from 47 per cent to 57 per cent.

The establishment of the Single European Market meant that changes in the arrangements for protecting the traditional Community and ACP banana producers were required. The old regime could not survive the opening up of borders within the Community since it depended on preventing the onward sale of dollar bananas from the free-market member states to those with restricted markets. In particular, pro-

tection for the EU and ACP producers required recourse to Article 115 (which allows free trade within the Community to be temporarily suspended).

The ACP banana-producing countries continue to insist that the EC has a legal commitment to ensure that they are not put in a less favourable situation than in the past or at present as the Lomé Convention puts it. However, these words are subject to alternative interpretations.

The new regime: After years of internal argument among the Member States, the Commission eventually adopted a system based on tariff quotas. Under the proposal, specific country quotas for ACP suppliers, based on traditional imports, would enter duty-free (up to a global amount of 857,000 tonnes). Latin America, or dollar, banana producers and non-traditional ACP producers are limited to a global tariff quota of 2.1 million tonnes in 1994 (2.2 mn. from 1995) with a duty of 75 Ecu/tonne for non-ACP supplies. Imports above the quotas are subject to a duty of 850 Ecu/tonne on dollar bananas and 750 Ecu/tonne on ACP bananas. Meanwhile, bananas from Community sources are to be subsidised through deficiency payments to growers on fixed amounts of output per region, grubbing up premia to encourage diversification into new crops in the least competitive areas and structural assistance to improve competitiveness elsewhere. Supplies from traditional EU sources would not face any quotas. Similar schemes for easing the process of adjustment for ACP farmers have not been agreed, though funds from the EDF are being directed towards that goal.

The tariff quotas are managed through a system of import certificates. These are shared out

among existing operators, 66.5 per cent to those who marketed dollar (or in the EU's terminology, third country) or non-traditional ACP supplies, 30 per cent to operators who agree to import ACP supplies and 3.5 per cent to operators who started marketing non-EC and non-traditional ACP supplies from 1992. In the first two cases, the distribution to operators of reference quantities will be based on imports in the three preceding years.

The lifeline for the ACP producers stems from that 30 per cent of quota reserved for importers who agree to import ACP bananas. If importers want to increase their licences for dollar bananas, they will have to commit to importing some further ACP supplies. The idea is that, with higher prices for dollar bananas than in the past, profits earned on these can cross-subsidise the more expensive ACP fruit. If insufficient ACP fruit is contracted, total licence allocations can be scaled back to encourage more importers to accept additional ACP contracts. The system is clearly an attempt at sophisticated market manipulation. It has been in operation since mid-1993. To date, the results are reckoned as encouraging by the EU Commission, though significant reductions in prices have been experienced by the Caribbean producers.

From the point of view of the Latin American suppliers, the main objection to the new regime is the very limited initial tariff quota of 2.1 million tonnes. Above that, the tariff of 850 Ecu/tonne will effectively keep out additional dollar bananas. Consumption in 1992 was in excess of 4 million tonnes – admittedly in a year when prices were unusually low and efforts were being made to secure ample quotas under the new system – but the traditional and non-traditional quotas together only come to some 2.8 million tonnes. Under the new regime, prices will settle between those which prevailed in the free and those in the restricted markets – indeed they are already doing so – but it is unlikely that demand will settle at less than 2.8 million tonnes. However, it is also unlikely that much fruit could be profitably imported with the 850 Ecu tariff,

given that the unit value of Latin American imports in 1992 was only 412 Ecu/tonne and that of ACP fruit 598 Ecu/tonne. The upshot will be that the tariff-quota will effectively prohibit above-quota imports. The net receipts on Latin American bananas will gain from higher prices but suffer from lower volumes.

The second main concern for the Latin American producers derives from the increased bargaining power of the TNCs. Originally it was proposed that they be allotted all the import licences, in which case they would be in a strong position to cream off the quota rents. Since the second appeal to GATT the supplying countries are able to allocate 70 per cent of their national quotas.

Involvement by the GATT: Five Latin American producers, Colombia, Costa Rica, Guatemala, Nicaragua and Venezuela, had already taken the EU to a GATT tribunal on the earlier regime and in June, 1993 they obtained a clear decision to the effect that the discriminatory banana import regimes operated by France, Italy, Spain and the United Kingdom were contrary to several GATT articles. These countries had a number of grounds for taking the new regime to a GATT tribunal. They claimed that (i) the initial tariff quota was below recent levels of imports; (ii) the existing ad hoc quotas in the restricted markets could not, under GATT, be replaced by a tariff quota covering the whole EC; (iii) the average tariff on the original two million tonnes quota would be higher than previous average tariffs because of the German derogation from the EU 20 per cent CET; and (iv) a number of additional details were clearly trade-restrictive and worked against the interests of the Latin Americans. In particular, the system whereby the tariff quota is administered will further weigh market power in favour of importing companies at the expense of the actual producers on the ground.

They were also encouraged by the GATT tribunal decision on the previous banana regime which not only condemned it as discriminatory, but in fact declared that the whole Lomé

Convention's structure of trade preferences was GATT-inconsistent on the grounds that it did not represent a comprehensive (agricultural trade is largely excluded) or reciprocal free-trade area customs union (under the meaning of GATT Article XXIV).

After the various attempts at reconciliation failed, the Commission withdrew its offer. The tribunal decision was published on 11 February, 1994. The new banana regime was condemned as discriminatory and inconsistent with GATT. Reports of GATT tribunals were not legally binding until adopted by the full Council and that could be blocked by the EU under the old rules, though that is no longer possible in the WTO.

Whether there will be another appeal to GATT is not clear. The EU has bought off four of the last five appellants with increased quotas and other concessions. As regards the issue of whether the whole Lomé trade system of non-reciprocal preferences is GATT-illegal, the EU requested and has been granted a waiver for the present Convention.

Meanwhile, the traditional suppliers are none too happy with the present regime. The single market in bananas in the EU means that prices are considerably below those they received under the earlier regime, though they are still higher than those on the world market. This is already causing severe economic and social problems for the very high cost producers in the Caribbean – in particular the Windward Islands.

The EU Commission did propose a scheme to supplement STABEX, specifically for banana producers. It would work on the basis of deficiency payments for marketed fruit – unlike STABEX which is compensation for total earnings shortfalls. It would cover countries, like Jamaica, where the share of banana exports in merchandise exports was insufficient to qualify for STABEX payments. It would be sufficiently funded so that payments would not have to be scaled down to meet prior limits. The scheme has not yet been accepted by the EU member states.

The importance of bananas to the Commonwealth Caribbean is shown in

Appendix Table 9. The major economic and social dislocation that will be caused by a serious loss in export markets is clear from the share of banana exports in GDP and in merchandise exports. The real problems lie in the Windward Islands – where according to unofficial estimates banana production, transport and other related activities probably account for 50 per cent of total employment.

The Windward Islands quotas are set on an annual basis – Dominica 71,000 tonnes, Grenada 14,000 tonnes, St. Lucia 127,000 tonnes and St. Vincent and the Grenadines 82,000 tonnes. There has been no allowance for any transfer of quotas so the producers will tend to overproduce to allow for any loss from weather or unforeseen events, with little hope of selling any excess profitably on non-EU markets (though the Commission has recently proposed some limited transferability of quotas). Failure to reach quota can, under present rules, result in a reduced quota in subsequent years.

Production in the Windward Islands is based on smallholdings on hilly terrain. Apart from topographical disadvantages there are adverse soil conditions relative those in Latin America. There is a significant occurrence of hurricanes. Wage rates are higher than in Latin American plantations. Since the land is unsuitable for plantation-type production, the Windward Islands producers cannot obtain the same economies of scale as their Latin American competitors. This means their input costs are higher, as are the transport and handling costs.

Various estimates have been made of how much the price of ACP fruit will fall from average levels under the previous regime once the new regime has settled down and the market has become genuinely integrated. The World Bank has recently estimated 30 per cent, though industry sources generally consider this too high a figure (World Bank, 1994a). A price decline of this magnitude would have serious implications for the export earnings of many Commonwealth Caribbean countries. On the basis of average 1991-92 trade, it would imply falls in export earn-

ings of Belize of 4.3 per cent, of Dominica 23.7 per cent, of Grenada 7.6 per cent, of Jamaica 1.5 per cent, of St. Lucia 21.9 per cent and of St. Vincent and the Grenadines 17.4 per cent.

The regime is due to last until 2002. But the alarming prospect is that most of these countries will be unable to reduce costs adequately to compete profitably in the EU market. The regime could in principle be extended or something similar implemented. But the general view is that the ACP producing countries will by then have

had long enough to diversify, and that, anyway, the momentum towards trade liberalisation would make a similar operation unfeasible.

There are major problems of diversification for the highly dependent islands. One justifiable criticism of the new regime is that it does nothing to support diversification, though there are EDF development assistance funds for that purpose. But the regime itself actually encourages continued dependency on bananas by ensuring their sale – albeit at lower prices than in the past.

A maritime services agreement: *the Caribbean contribution*

The negotiations on Maritime Transport Services were not completed by the time the UR Agreement was signed in Marrakesh in early 1995. The difficulties of reaching an agreement had been underestimated. In an attempt to rescue the negotiations, Norway and Sweden proposed the submission of commitments to a minimum level of open competition in three areas – international shipping, access to ports and port services (such as pilotage, repair, bunkering) and auxiliary services (such as cargo handling, warehousing and stevedoring) – by a number of countries in the hope that others would participate later.

In the event, time was insufficient and particular problems arose with the US insistence that US food aid and military supplies be carried on US vessels. It was agreed that the 32 countries that had submitted offers could withdraw them and negotiations would be restarted under an NGMTS – Negotiating Group on Maritime Transport Services. Neither the EU nor the US had submitted a liberalisation commitment. By 13 July 1994, a total of 30 countries had joined the negotiations. As of May 1995, some 60 countries were participating. Provisions were made for observer status.

The maritime services sector is subject to a particularly high degree of protection, of restrictive practices and of regulation. The NGTMS has limited goals, in particular the elimination of restrictions on trade in shipping, port and other services. It does not seek an agreement on the dismantling of the liner conferences, the cartels which control freight prices on the most important routes or on restrictions on cabotage, the rules which prevent foreign carriers competing in within-country trade. It does seek to encourage

the elimination of nationalistic practices, such as cargo reservation schemes which restrict the use of foreign carriers, crew monopolies, port monopolies and so on. As with other services sectors, countries are encouraged to submit schedules of offers and to list any restrictions on MFN treatment.

The first paragraph of the Annex on Negotiations on Maritime Transport Services that neither Article II of the GATS nor the Annex to that article (which require MFN treatment unless a measure is specifically listed and meets certain conditions) would come into force for maritime services until an implementation date was agreed, or in the event of failure of the NGTMS, the date of the final report.

Several meetings of the NGMTS have taken place to date, but relatively little progress has been achieved. A model schedule of offers has been agreed since many of the original offers, some of which remain on the table, did not deal with many important issues. The danger of this approach is that where a restrictive stance is practised it becomes enshrined in the agreement and, to some extent, legitimised. Also the system could actually encourage protectionism since countries may opt to protect their future discretion by declaring exemptions that had not hitherto been in effect.

In the most recent meetings, an effort has been made to establish the extent of restrictive practices in the maritime services sector through asking all delegations to complete a questionnaire on regulatory structures, freedom of access to facilities and so on. A goal for starting serious negotiations on liberalisation in September 1995 has been set, and the most important participants have been asked to put forward some ideas

on how this might proceed before the summer recess. The general idea is still that the major players will commit themselves to a minimum degree of openness and, thereby, generate a sufficient momentum to carry the other participants along to a meaningful degree of irrevocable liberalisation across the board.

Out of the ten Commonwealth Caribbean countries to make services offers in the UR, six included offers in maritime transport services. Most of these appear to have confirmed that there are no restrictions on the import of these services by the countries in question, nor any regulations which would prevent these services competing in the world market.

As in so many of the UR negotiations, where a country does not have a major direct interest in the subject, the importance of participation lies

in contributing to the pressure for a liberal outcome. Open markets in maritime services, with the very minimum of barriers, are in every country's long-term interest. The GATS, and with it any agreement on maritime services, is only the first stage in a process which will ultimately lead to the free, international trade in services. Official restrictive practices will be abandoned, and in time, private non-competitive practices such as the liner codes may well be proscribed. If the Commonwealth Caribbean countries are to enter the market for port and ancillary services, including transshipment, warehousing, regional freight transport and so on, it is imperative that the world markets be open, and this justifies an active participation by these countries in the NGTMS.

The use of anti-dumping (AD) procedures and countervailing (CV) procedures to prevent dumping of agricultural products

Uruguay Round and Anti-dumping: Until the 1980s, anti-dumping actions were used largely by the DMEs to protect industries threatened by highly competitive imports from Japan and the NIEs. Then they became what is now widely seen as a quick and relatively costless (at least when the consumer interest is ignored) alternative to safeguards actions for protection over a broad range of sectors by an increasing number of countries, including the developing countries. The GATT code was undemanding about the procedures or evidence required to find exporters guilty of selling below normal cost. Provisional duties – or export constraint agreements – could be imposed immediately, and, even if these were not upheld in the final determination, at worst the duties had to be refunded. Often, the threat of AD actions was sufficient to deter exporters from competing on price.

The Uruguay Round has done little to tighten up the rules, in particular no stronger evidence of predatory pricing, the original justification for AD actions, is required. The EU and the US, each in different ways, sought even greater discretion for their arbitrary use of the AD instrument. Eventually, they agreed not to disagree in the negotiations with the result that some of the most biased of the EU rules were effectively generalised. A five-year review can extend the duties, grounds for contesting AD actions are further circumscribed, clothing and textiles even where controlled by MFA quotas are now covered and the concept of cumulative damage allows injury to be established more easily.

The complaints, in excess of 100, brought by the exporting countries, largely Japan and the NIEs, were mostly dismissed. Some improvements

making the determination of the normal value more transparent and predictable were adopted, as was the sunset clause which requires that a duty is automatically reviewed after five years.

The developing countries as users of AD and countervailing (CV) actions: The developing countries are still mainly to be found among the defendants in AD and CV actions. Over the period 1985 to 1992, 473 out of 1148 investigations referred to developing country exporters. Only 111 of those investigations were undertaken by developing country governments, of which Mexico was responsible for 84, Brazil 13, Korea 9 and India five. 93 of the 180 CV investigations referred to developing countries exporters. Only 26 were initiated by the developing countries, Chile accounting for 18 and Brazil eight.

Clearly, however, the developing countries are learning by example of the DMEs. Most of the AD and CV investigations they have undertaken have come in the latter half of the period. But in initiating AD or CV actions, firms in a developing country may be at a disadvantage relative to firms in a developed country. With often only a nascent industry in the developing country, the government may not be prepared to sacrifice the cheaper imports in order to preserve a limited number of jobs, particularly if the imports are themselves inputs into local industries. Moreover in developing countries, the business lobby is often relatively weak. For the government, there are major institutional difficulties in bringing AD or CV actions. Unless the investigations follow the rules precisely, they may be successfully challenged through the WTO (or in the past GATT) which can imply lengthy or costly legal processes.

However, the attitude of the WTO to AD and CV actions seems to have undergone a subtle change. Instead of generally disapproving of these forms of safeguards, the WTO is keen to offer advice and training to developing countries in this area.

The subsidising and/or dumping of food by the EU: The nature of the Common Agricultural Policy is such that, at first sight, it appears that either an AD or a CV action could be successfully taken against EU exports of a wide range of temperate agricultural products. The EU has itself calculated the amounts of export subsidies for each product for its offer in the Agricultural Negotiations. This could make a CV action more straightforward, though the adverse impact on domestic producers of the products in question has still to be established. In an AD action, selling abroad below normal value has to be established, with the normal value equal to the price of the product for consumption in the exporting country, or in the absence of a domestic price, the export price to a third country or the cost of production plus a reasonable addition for the selling cost and profit.

The procedures in either action have to follow scrupulously those laid down in the GATT Agreement and the UR Final Act. Provisional duties must be based on sufficient evidence of subsidies and injury. Appropriate notices to the complainants, and publicity, are required. The subsequent investigation must consider both evidence for the subsidy and for injury. Opportunities for consultation with the complainants must be made available. In the case of an AD action, similar requirements exist.

In 1992, Brazil imposed countervailing duties on imports of milk powder and other milk prod-

ucts from the EU. The EEC (as it was then) complained to the GATT and a panel was established. The panel decided that Brazil had not properly followed the procedural obligations laid down in Articles 5 and 6 of the Agreement, though without making any judgment as to whether CV duties could have been validly imposed. In particular, there had been no adequate preliminary investigation and sufficient evidence of a subsidy or injury had not been put forward, so that the provisional CV duties were not consistent with the Agreement. Moreover, the EEC had not been properly notified of the initiation of an investigation. And thirdly, the imposition of definitive CV duties was inconsistent with the analysis of the volume of imports of milk powder, in particular the requirement in Article 6.2 that the authorities consider whether there had been a significant increase in subsidised imports and the failure of Brazil to analyse the impact on domestic producers.

Assistance from the WTO: The Brazilian case emphasises the importance of following the procedural requirements to the letter. In this respect, the WTO is willing to help countries who are considering taking AD or CV actions. First by looking at the internal legislation under which the actions would be taken and advising on whether that is consistent with the Agreement and the UR Final Act. Secondly, the WTO will advise on procedural issues and, where necessary, on the use of consultants. Thirdly, the WTO does run regular training programmes for civil servants from the developing countries on these matters.

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Notes

- 1 The latter are typically treated as destinations for, rather than origins of, Jamaican exports in the official statistical reports.
- 2 Whether any particular trade flow benefits from the GSP is difficult to determine. However those mentioned, provided the rules of origin are satisfied, do qualify for GDP treatment and are presumed to benefit.
- 3 The Dominican Republic and Haiti have applied to join CARICOM, but the size of these countries - each has a population greater than that of all the present members combined - has led to a cautious responses on the part of the current membership.
- 4 The Least Developed Countries (LDCs) in CARICOM are Belize and the OECS states - Antigua and Barbuda, Dominica, Grenada, St Kitts and Nevis, St Lucia and St Vincent and the Grenadines. The Crown colony, Montserrat, which is not treated in this report, is sometimes included.
- 5 1992 data are available for certain Commonwealth Caribbean countries from the UN ECLAC (1994). For Barbados, Guyana, Jamaica, the Bahamas and Belize combined, the figure was 9.8 per cent. Part of the difference between the ECLAC data and the CARICOM data lies in the fact that the CARICOM data excludes re-exports. There is considerable transshipment from the larger Caribbean islands to the smaller.
- 6 This is based on the simulations reported in Woodward (1994). Equal probability is assigned to each of his four world price scenarios and the results of his price adjustment option (intervention price on A quotas) were averaged. It is assumed that were the quota adjustment option used instead, the net results, after reduced EU exports worked through the world price, would not be greatly different.
- 7 Where under the EU GSP scheme tariff-quotas are exceeded, notably in tobacco, the effective tariff for GSP beneficiaries for that sub-item is treated as equal to the MFN tariff because the GSP rate no longer has the function of allocating EU imports to the GSP beneficiaries at the margin. The EU has proposed some radical changes to its GSP scheme, according to the sensitivity of the product in EU production. However sufficient details were not available at the time of writing to assign new GSP rates to each product category.
- 8 In the case of coffee and cocoa, the price changes were taken from the RUNS model simulation. That gave price reductions of 1.5 per cent for coffee and 1.2 per cent for cocoa. The tariff reductions themselves might be expected to result in price increases, but the reductions are small and only apply to EU imports. As a result the interactions among markets, in particular the more substantial liberalisation in temperate products and manufactures, lead to substitution and income effects and reductions in demand for tropical beverages. For other tropical products - tobacco, oilseeds, fruit and nuts (excluding bananas) and spices - and for fish, effects on prices were estimated along with the trade flows using partial equilibrium models.
- 9 The EU does have special tariff preferential rates for least-developed countries (LDCs). These cover a small number of countries outside the ACP, and utilisation rates are very low. Moreover they are clearly irrelevant where the GSP rate is in any event zero. Introducing them into the calculations would make no appreciable difference to the results.
- 10 The present agreement is the fourth in the series - MFA IV - It should have expired in 1991 but was repeatedly renewed while the UR was still unresolved. It takes the form of bilateral quota arrangements negotiated between the importing country - all OECD members - and the developing country suppliers.
- 11 No distinction is made between changes in the volume and changes in the value. The price effect of the increases in demand is assumed to be offset by reduction in quota rents and improved productivity from scale effects.
- 12 World Bank (1994a) in Table 5.10 list \$506 million of exports of SITC 5125. This is at odds with the OECD databank by a factor of 10.
- 13 This is a crude indicator. It merely represents a count of the number of 3-digit SITC products accounting for more than 0.3 per cent of total exports.
- 14 UNCTAD, 1993.
- 15 It is not surprising that free trade areas might impose more restrictive rules of origin than a single country offering a trade preference to one or a group of countries. The former are framed to prevent trade deflection by which other countries could tranship their products into FTA through the partner with the lowest - or most permeable - trade barriers.
- 16 This chapter concentrates on FDI to the exclusion of portfolio investment. The latter has been of only marginal macro-economic significance in the region. However most of the same arguments apply.
- 17 The *Mercado de Valores*, April 1994, gives estimates of sources of FDI in Mexico in 1993.
- 18 The average CET rate on competing consumer goods will have been cut from 40 to 60 per cent in 1990 to 20 per cent in 1987-88. The effective rate of protection is estimated by the World Bank to have fallen by 86 per cent in Guyana, 45 per cent in Jamaica and 25 per cent in Trinidad and Tobago between 1981-82 and 1993. That of Barbados is estimated to have risen slightly (World Bank, 1994a).
- 19 The Windward Islands comprise Dominica, Grenada, St Lucia, and St Vincent and the Grenadines.

Appendix Tables

Appendix Table 1: Intra-regional trade, 1982 and 1992; exports from Caribbean countries to other Caribbean and Latin America countries as per cent of total exports, US\$m. and %

	The Bahamas		Barbados		Belize		Guyana	
	1982	1992	1982	1992	1982	1992	1982	1992
The Bahamas	-	-	0.3	0.5	0.4	0.0	0.0	0.0
Barbados	0.0	0.0	-	-	0.4	0.9	1.6	1.1
Belize	0.0	0.0	0.0	0.7	-	-	0.0	0.0
Guyana	0.0	0.0	0.2	1.0	0.0	0.0	-	-
Jamaica	0.0	0.0	4.2	1.3	6.3	1.0	1.7	1.0
Trinidad	0.0	0.0	20.8	8.4	7.2	3.4	12.3	1.7
Other Carib (a)	1.4	0.0	0.5	0.4	0.0	0.0	0.0	0.7
ALADI (b)	0.3	1.9	0.1	0.4	0.5	3.4	6.2	2.4
CACM (c)	0.0	0.0	0.0	0.0	0.4	0.0	0.0	0.0
Total above	1.7	1.9	26.1	12.7	15.2	8.7	21.8	6.9
Total exports \$m.	1567.5	995.3	190.8	222.4	55.3	111.0	258.4	366.8

	Jamaica		Trinidad		Other Carib. Islands (a)	
	1982	1992	1982	1992	1982	1992
The Bahamas	0.1	0.0	0.1	0.3	0.0	0.0
Barbados	1.5	1.2	1.9	3.4	0.1	0.0
Belize	0.3	0.3	0.0	0.2	0.0	0.0
Guyana	0.4	0.2	3.6	2.3	0.0	0.0
Jamaica	-	-	1.5	1.7	0.1	0.3
Trinidad	7.5	2.1	-	-	0.3	0.3
Other Carib (a)	0.7	0.4	4.9	4.7	0.6	0.3
ALADI (b)	1.6	1.6	3.0	6.8	7.4	3.6
CACM (c)	0.2	0.1	3.6	1.0	1.8	3.7
Total above	12.3	5.9	18.6	20.4	10.3	8.2
Total exports \$m.	717.0	1370.9	3085.3	1868.8	1716.8	1626.5

a: Haiti, Panama, Dominican Republic, Surinam

b: Latin American Integration Association (Argentina, Bolivia, Brazil, Colombia, Chile, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela)

c: Central American Common Market (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua)

Appendix Table 2: Commonwealth Caribbean exports by market and broad SITC groups, \$ m. and %

Country	SITC	per cent by market			per cent by market for each SITC group			OECD	OECD \$ mn
		US	Can	EU	US	Can	EU		
Antigua	1	48.4	5.0	43.1	42.5	86.7	22.6	28.8	4.6
	2 + 4	65.5	-	25.4	20.9	-	4.8	10.5	1.7
	3	-	-	100.0	-	-	8.4	4.6	0.7
	5 to 9	21.4	0.4	62.6	36.6	13.3	64.1	56.2	8.9
	total	32.8	1.7	54.8	100.0	100.0	100.0	100.0	15.9
The Bahamas	0 + 1	38.3	4.0	55.7	9.0	13.8	30.0	13.2	128.6
	2 + 4	87.8	2.1	9.7	4.1	1.4	1.0	2.7	25.9
	3	74.0	7.3	18.0	20.0	28.9	11.2	15.2	147.9
	5 to 9	54.7	3.1	20.6	66.9	55.9	57.8	68.9	669.0
	total	56.4	3.9	24.6	100.0	100.0	100.0	100.0	971.4
Barbados	0 + 1	12.8	7.0	79.8	17.0	34.8	79.5	49.8	42.4
	2 + 4	34.1	1.3	21.1	1.4	0.2	0.7	1.6	1.3
	3	-	100.0	-	-	36.7	-	3.7	3.1
	5 to 9	68.1	6.3	22.1	81.5	28.3	19.9	44.9	38.2
	total	37.5	10.0	50.0	100.0	100.0	100.0	100.0	85.0
Belize	0 + 1	37.4	6.4	55.6	63.1	99.1	98.3	80.8	93.1
	2 + 4	34.9	-	15.2	0.9	-	0.4	1.2	1.4
	3	100.0	-	-	0.1	-	-	-	-
	5 to 9	95.9	0.3	3.4	35.9	0.9	1.3	17.9	20.7
	total	47.8	5.2	45.8	100.0	100.0	100.0	100.0	115.2
Dominica	0 + 1	2.4	0.1	97.1	22.0	21.5	97.1	86.3	49.5
	2 + 4	80.6	-	9.8	5.1	-	0.1	0.6	0.3
	3	81.8	-	18.2	11.6	-	0.3	1.3	0.8
	5 to 9	49.8	1.6	19.0	61.3	78.5	2.6	11.7	6.7
	total	9.5	0.2	86.3	100.0	100.0	100.0	100.0	57.3
Grenada	0 + 1	16.9	2.1	70.0	30.8	100.0	92.8	68.6	15.0
	2 + 4	-	-	4.2	-	-	0.1	1.0	0.2
	3	-	-	-	-	-	-	-	-
	5 to 9	85.5	-	12.0	69.2	-	7.1	30.5	6.7
	total	37.6	1.5	51.7	100.0	100.0	100	100	22.0
Guyana	0 + 1	16.7	1.5	79.8	25.5	50.2	82.5	56.5	163.0
	2 + 4	67.3	1.6	17.4	69.9	35.7	12.2	38.5	111.1
	3	100.0	-	-	0.1	12.2	-	-	0.1
	5 to 9	34.3	5.0	59.7	4.5	14.1	5.3	4.9	14.1
	total	37.1	1.7	54.7	100.0	100.0	100.0	100.0	288.3
Jamaica	0 + 1	22.9	7.4	62.1	10.8	15.5	58.9	24.1	297.1
	2 + 4	44.9	20.5	13.0	39.1	17.9	22.8	44.7	550.3
	3	96.7	-	3.3	-	-	-	-	-
	5 to 9	82.6	1.3	15.0	50.1	66.6	18.3	31.1	382.9
	total	51.3	11.5	25.5	100.0	100.0	100.0	100.0	1230.3
St. Lucia	0 + 1	1.6	0.2	98.2	5.7	67.4	95.0	76.0	96.8
	2 + 4	2.2	-	94.9	-	-	0.4	0.4	0.5
	3	-	-	-	-	-	-	-	-
	5 to 9	83.1	0.3	15.1	94.3	32.6	4.6	23.7	30.2
	total	20.9	0.2	78.5	100.0	100.0	100.0	100.0	127.5

continued overleaf

Appendix Table 2: Commonwealth Caribbean exports by market and broad SITC groups, \$ m. and % *continued*

Country	SITC	US Can EU			US Can EU			OECD	OECD
		per cent by market			per cent by market for each SITC group				
St. Vincent	0 + 1	2.7	0.5	78.3	33.5	90.0	88.1	81.8	75.9
	2 + 4	7.7	-	18.0	0.2	-	0.1	0.2	0.2
	3	-	-	0.1	-	-	-	2.7	2.5
	5 to 9	28.9	0.3	56.2	66.3	10.0	11.8	15.3	14.2
	total	6.7	0.4	72.7	100.0	100.0	100.0	100.0	92.8
Trinidad, Tob.	0 + 1	17.4	2.0	77.3	3.3	10.1	59.4	14.1	170.6
	2 + 4	50.1	2.4	40.8	0.9	1.1	2.9	1.3	15.8
	3	93.5	2.9	3.6	75.1	63.0	11.8	60.7	734.9
	5 to 9	65.7	3.0	19.9	20.8	25.8	25.9	23.9	289.8
total	75.6	2.8	18.3	100.0	100.0	100.0	100.0	1211.2	
Commonwealth Caribbean total	0 + 1	19.5	3.8	71.1	9.5	18.3	63.9	27.0	1136.7
	2 + 4	50.1	16.3	14.3	15.2	49.5	8.0	16.8	708.7
	3	89.6	3.9	6.0	34.1	15.0	4.3	21.1	890.1
	5 to 9	65.1	2.7	19.6	41.2	17.1	23.0	35.1	1,481.3
	total	55.5	5.5	30.0	100.0	100.0	100.0	100.0	4,216.8

Notes: SITC 0+1 – food, beverages and tobacco; 2+4 – crude materials, oils and fats; 3 – fuels; 5 to 9 – manufactures

Source: OECD Foreign Trade databank. N.B. St. Kitts and Nevis is not available in this bank

Appendix Table 3: Dependency of Commonwealth Caribbean countries on certain food and clothing exports by market, share in total exports, av. 1991-92, per cent

Country	US	Canada	EU	Total OECD	Country	US	Canada	EU	Total OECD
Antigua					Grenada				
travel goods	14.0	-	-	4.9	fish/crust'ns	4.1	0.3	3.3	3.3
clothing	0.0	-	-	1.8	bananas	-	-	48.8	25.2
Bahamas					cocoa beans	16.3	-	4.1	15.1
fish/crust'ns	5.5	1.0	11.2	6.4	clothing	2.8	-	0.1	1.4
rum	0.4	12.2	17.8	4.7	Guyana				
Barbados					fish/crust'ns	16.8	2.2	0.5	6.9
sugar/mol'ses	3.7	16.9	73.1	39.6	rice	-	-	6.7	3.9
rum	5.2	12.6	3.3	5.0	sugar/mol'ses	6.1	-	70.7	40.9
clothing	25.9	0.4	3.3	12.8	rum	0.3	2.2	2.8	2.5
Belize					clothing	3.2	13.0	-	1.4
fish/crust'ns	11.3	5.0	4.6	8.0	Jamaica				
bananas	0.0	-	31.2	14.4	fish/crust'ns	1.0	-	0.2	0.6
sugar/mol'ses	21.5	73.1	55.5	39.5	bananas	0.0	-	19.6	5.0
clothing	20.3	0.8	-	10.0	sugar/mol'ses	1.3	-	24.9	7.0
Dominica					cocoa beans	0.0	-	0.5	0.2
bananas	-	-	91.3	78.9	rum	1.2	2.3	3.6	2.3
sugar/mol'ses	-	-	3.6	3.1	clothing	34.8	4.3	1.0	22.6

Appendix Table 3: **Dependency of Commonwealth-Caribbean countries on certain food and clothing exports by market, share in total exports, av. 1991-92, per cent** *continued*

Country	US	Canada	EU	Total OECD	Country	US	Canada	EU	Total OECD
St. Lucia					Trinidad				
bananas	-	1.3	93.1	73.1	fish/crust'ns	0.5	5.8	0.8	1.0
cocoa beans	0.6	-	-	0.1	sugar/mol'ses	0.5	-	13.8	2.9
rum	-	-	0.4	0.3	cocoa beans	0.3	0.6	0.3	0.4
clothing	69.7	26.0	0.0	14.6	rum	0.0	0.6	35.4	6.5
St. Vincent					clothing	0	-	0	0
fish/crust'ns	27.8	-	8.0	22.7	<i>Source: OECD trade data bank</i>				
bananas	-	0.1	79.7	57.9					
clothing	55.1	10.0	0.0	3.7					

Appendix Table 4: **Trade in services: balances, total, transport and travel 1986-93, \$ million**

	1988	1989	1990	1991	1992	1993
Antigua						
total	159	178	206	205	222	227
of wh. trnspt.	n.a.	4	10	21	25	25
travel	230	255	281	296	213	254
The Bahamas						
total	852	994	971	839	893	912
of wh. trnspt.	-70	-58	-35	-45	-53	-30
travel	972	13,119	1,128	11,669	1,051	1,084
Barbados						
total	398	477	462	453	440	375
of wh. trnspt.	-51	-57	-32	-30	-39	-31
travel	423	484	453	417	423	548
Belize						
total	19	21	52	54	62	58
of wh. trnspt.	-13	-17	-20	-23	-27	-27
travel	15	21	31	37	46	48
Dominica						
total	-2	197	0	5	9	14
of wh. trnspt.	-9	-15	-14	-15	-15	-14
travel	12	14	16	20	19	24
Grenada						
total	24	13	21	27	35	40
of wh. trnspt.	-15	-15	-17	-16	-8	-16
travel	33	37	45	49	52	64
Guyana						
total	n.a.	-106	-102	-113	-86	-68
of wh. trnspt.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
travel	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

continued overleaf

Appendix Table 4: Trade in services: balances, total, transport and travel 1986-93, \$ million *continued*

	1988	1989	1990	1991	1992	1993
Jamaica						
total	247	229	401	405	488	461
of wh. trnspt.	-108	-175	-146	-142	-131	n.a.
travel	468	539	686	710	818	887
St. Kitts and Nevis						
total	22	20	18	31	37	26
of wh. trnspt.	-12	-14	-15	-15	-15	-16
travel	35	37	40	51	62	65
St. Lucia						
total	54	65	65	91	103	88
of wh. trnspt.	-33	-38	-44	-43	-48	-33
travel	72	86	87	108	118	179
St. Vincent						
total	-46	-50	-49	-53	-52	3
of wh. trnspt.	-13	-15	-18	-15	-21	-16
travel	17	22	25	25	25	27
Trinidad/Tobago						
total	-161	-137	-120	-98	-69	n.a.
of wh. trnspt.	-62	-100	-75	-116	-61	n.a.
travel	-76	-34	-27	-9	-4	n.a.

Source: IMF Balance of Payments Yearbook, 1993

See page 82 for Appendix Table 5

Appendix Table 6: Caribbean, US and EU Preferential Sugar Quotas and Exports (000 tonnes)

Country	1986-88 average					1991				
	quota			sugar expts	expts as % of quota	quota			sugar expts	expts as % of quota
	US	EU	total			US	EU	total		
Barbados	8.3	53.8	62.1	77.5	124.8	6.9	49.3	56.2	54.6	97.2
Belize	13.8	43.2	57.0	91.4	160.4	10.8	39.4	50.2	98.8	196.8
Guyana	10.6	170.6	181.2	185.7	102.5	15.9	157.7	173.6	154.5	89.0
Jamaica	13.7	127.0	140.7	144.8	102.9	14.5	118.3	132.8	154.2	116.1
St. Kitts and Nevis	8.5	16.7	25.2	22.5	89.3	7.3	14.8	22.1	19.2	86.9
Trinidad and Tobago	8.6	146.8	155.4	59.3	38.2	9.2	69.0	78.2	58.2	74.4
Total	63.5	558.1	621.6	581.2	93.5	64.6	448.5	513.1	539.5	105.1

Source: World Bank (1994a), Courier, March-April 1990

See page 82 for Appendix Table 7

Appendix Table 8: Non-traditional exports of Commonwealth Caribbean countries (excluding apparel) and Mexican exports to US, 1992, \$ 000 and %

Country	SITC (a)	product (b)	dominant market	exports to US	Mexican exports to US	exports to US as % total Carib. exports	SITC as % aggregate Carib. exports
				\$'000s	\$'000s		
Antigua	714	non-elect. motors	EU	0	56,252	0.0	4.4
	793	ships, boats	EU	0	1,439	0.0	3.4
	831	travel gds., handbags	US	1,523	64,787	100.0	12.1
	851	footwear	EU	0	214,978	0.0	0.5
	513	hydrocarbons	US	368,042	186,112	94.5	37.7
	514	nitrogen compounds	US	13,963	8,720	100.0	1.4
	667	precious stones	other	0	411	0.0	0.1
	793	ships, boats	EU	13	1,439	0.0	17.2
Barbados	553	toilet preps.	EU	0	9,536	0.0	0.5
	667	precious stones	US	69	411	100.0	0.1
	714	non-elect. motors	EU	0	56,252	0.0	1.0
Dominica	553	toilet preps.	US	78	9,536	95.1	0.1
	851	footwear	US	15	214,978	31.3	0.1
Grenada	793	ships, boats	EU	0	1,439	0.0	0.4
Guyana	512	ethanol	EU	0	44,771	0.0	0.8
	553	toilet preps.	US	118	9,536	67.0	0.1
	667	precious stones	EU	185	411	3.8	1.5
Jamaica	512	ethanol	US	8,936	44,771	98.6	0.7
	553	toilet preps.	US	881	9,536	86.1	0.1
	652	cotton fabrics	US	471	26,171	65.3	0.1
	851	footwear	US	2,294	214,978	87.8	0.2
St. Lucia	793	ships, boats	EU	0	1,439	0.0	0.1
	831	travel gds., handbags	EU	0	64,787	0.0	0.5
St. Vincent	793	ships, boats	EU	0	1,439	0.0	14.6
Trinidad and Tobago	512	methanol	US/EU	16,427	44,771	54.8	2.5
	714	non-elect. motors	EU	0	56,252	0.0	0.8

Notes

a: 3-digit heading covers at least 0.05% total exports

b: description may refer to narrower than 3-digit group when one product dominant

Appendix Table 5: Shares in total exports by SITC 3-digit category: Spearman's rank correlation coefficients (a)

	Bah	Barb	Bel.	Dom	Guy	Jam
Barbados	0.65					
Belize	0.59	0.38				
Dominica	0.56	0.50	0.41			
Guyana	0.59	0.41	0.52	0.33		
Jamaica	0.59	0.38	0.58	0.50	0.40	
Trinidad and Tobago	0.66	0.37	0.28	0.36	0.33	0.30
CARICOM	0.62	0.35	0.46	0.48	0.44	0.53
Colombia	0.60	0.30	0.44	0.36	0.40	0.35
Venezuela	0.57	0.31	0.27	0.27	0.29	0.27
Colombia/Venezuela	0.57	0.32	0.36	0.40	0.43	0.35
Cuba	0.60	0.28	0.40	0.35	0.49	0.47
Dominican Republic	0.91	0.63	0.63	0.64	0.63	0.65
French Guiana	0.57	0.27	0.34	0.27	0.35	0.29
Haiti	0.56	0.41	0.45	0.33	0.37	0.46
Neth. Antilles	0.93	0.60	0.64	0.60	0.64	0.60
Other Carib.	0.63	0.34	0.43	0.34	0.38	0.50
Costa Rica	0.60	0.40	0.50	0.45	0.37	0.51
El Salvador	0.61	0.40	0.33	0.34	0.28	0.40
Guatemala	0.66	0.39	0.38	0.47	0.29	0.37
Honduras	0.57	0.32	0.37	0.36	0.38	0.41
Nicaragua	0.60	0.28	0.36	0.27	0.30	0.33
Panama	0.59	0.40	0.55	0.43	0.38	0.46
Central America	0.59	0.42	0.52	0.53	0.45	0.51
Mexico	0.64	0.30	0.33	0.28	0.35	0.40
Canada	0.57	0.32	0.33	0.27	0.41	0.43

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

Source: Sugar Industry Authority of Jamaica

Appendix Table 7: Commonwealth Caribbean exports of preferential products (other than sugar, rice and banana

	Antigua	The Bahamas	Barbados	Belize	Dominica
Manioc, arrowroot	-	-	249	-	66
Oranges, mandarins	-	-	-	-	-
Grapefruit	-	-	-	-	88
Grapes	17	-	-	-	-
Melons, papaws, etc.	2	-	112	-	27
Bread, cakes etc.	27	-	-	-	-
Fruit, nuts	-	-	-	-	-
Fruit, vegetable juices	-	-	-	2,589	-
Soya beans, oil cake	558	74	-	-	-
Total	604	74	361	2,589	181
as % total exports	0.47	0.00	0.04	0.19	0.03

Source: EU Offer to GATT Uruguay Round, Eurostat External Trade Statistics

Trin	CARICOM	Col./Venez	Other Carib	Cent. Amer	Mexico
0.45					
0.33	0.57				
0.43	0.42				
0.37	0.48				
0.37	0.56	0.36	0.53	0.64	0.62
0.62	0.65	0.68	0.70	0.64	0.27
0.27	0.32	0.31	0.37	0.31	0.27
0.38	0.39	0.37	0.36	0.43	0.27
0.65	0.60	0.60	0.63	0.63	0.60
0.36	0.58	0.45	1.00	0.45	0.47
0.44	0.46	0.40	0.33	0.57	0.33
0.31	0.34	0.33	0.31	0.50	0.34
0.28	0.37	0.36	0.41	0.67	0.35
0.36	0.38	0.32	0.48	0.34	0.29
0.42	0.46	0.38	0.33	0.37	0.34
0.42	0.41	0.49	0.42	0.63	0.29
0.37	0.41	0.40	0.45	1.00	0.32
0.34	0.41	0.28	0.47	0.32	1.00
0.35	0.28	0.33	0.30	0.29	0.38

J, 1992 \$ m. and %

Grenada	Jamaica	St. Kitts	St. Lucia	St. Vincent	Trinidad
-	2,750	-	-	140	3
-	2,719	-	-	-	-
-	143	-	-	-	-
-	-	-	-	-	-
199	1,229	-	600	7	181
-	168	-	-	-	1,208
-	1,062	-	-	-	10
-	1,227	-	-	-	33
-	-	-	-	-	-
199	9,298	-	600	147	1,435
0.10	0.07	0	0.04	0.01	20

Appendix Table 9: **Commonwealth Caribbean banana exports, 1980, 1991 and 1992, per cent**

	banana exports as a share of GDP			as a share of merchandise exports			as a share of agricultural exports		
	1980	1991	1992	1980	1991	1992	1980	1991	1992
Windward Islands	n.a.	14.6	15.1	n.a.	50.9	53.5	n.a.	75.6	n.a.
Dominica	5.1	20.3	19.1	30.9	58.5	56.5	68.2	91.6	85.3
Grenada	4.8	2.2	1.7	24.4	18.6	17.2	21.9	28.4	31.4
St. Lucia	9.3	16.1	17.5	31.2	54.0	60.1	75.9	87.4	86.2
St. Vincent/ Grenadines	10.7	18.6	18.3	32.8	49.7	49.3	66.5	63.6	n.a.
Other									
Belize	1.8	0.5	0.7	4.3	6.1	7.4	5.7	9.3	10.7
Jamaica	0.4	1.3	1.2	1.1	4.3	3.8	13.0	26.0	22.7

Source: WINBAN Annual Reports and World Bank, reported in World Bank (1994a)

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