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TRADE ISSUES AND DEVELOPMENT PROSPECTS OF
ISLAND DEVELOPING COUNTRIES OF THE CARIBBEAN

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INTRODUCTION

1. The economic prospects of Caribbean island economies are dependent on their ability to anticipate opportunities and threats resultant from exogenous trends in the world trading system. The economic history of the Caribbean region bears eloquent testimony to the costs and benefits which have resulted from earlier epochal changes in the world trading regime. A number of economic 'hurricanes' are currently looming on the horizon. In fact, several Caribbean economies already have begun to experience the early warning signals of increasing 'atmospheric' turbulence.

2. Chapter 1 provides a review of the trade performance of Caribbean economies and the importance of trade to overall economic performance in these small, open economies. Chapter 2 turns to the identification of the principal trade issues and the prospects for Caribbean island economies in the context of trade liberalisation. Chapter 3 addresses the question of the scope for sustainable trade diversification while Chapter 4 looks at the issue of Regional Cooperation in the quest for exploiting trade opportunities for sustainable economic development. Chapter 5 provides a conclusion and advances recommendations.

Chapter I**TRADE PERFORMANCE OF CARIBBEAN ISLAND ECONOMIES¹**

3. Caribbean exporters can be grouped into four categories in terms of main exports: agricultural, mineral, tourism and mixed. The countries with a significant export dependence on agriculture include Dominica, Grenada, Cuba and Haiti. The countries largely dependent on minerals are Trinidad and Tobago, Jamaica and the Netherlands Antilles, up to 1985. There has been a relative decline in the significance of the export contribution of the mineral and agricultural sectors. In the case of the Netherlands Antilles, for example, there has been a precipitous fall in the contribution of the export oil refining sector to total export earnings from 48.5% in 1980 to 1.2% in 1990². In Trinidad and Tobago, the share of the oil sector to total export earnings fell from 73% in 1980 to some 50% in 1993. In Jamaica, the bauxite sector recorded a halving of its share in total export earnings from 52% in 1980 to 22 % in 1993.

¹ Data used in the preparation of this report will be made available in a separate annex document.

² This follows the closure of the offshore oil refineries in Curacao and Aruba.

TABLE 1**Major Export Products of CDCC Countries by Product Group**

GROUP	PRODUCT	MAIN CDCC EXPORTERS
Agricultural Products (non-tropical)	<ul style="list-style-type: none"> • Essential Oils/Fats • Fish/Shrimp 	<ul style="list-style-type: none"> • Cuba • Belize, Suriname, Guyana
Tropical Agricultural Products	<ul style="list-style-type: none"> • Beverages • Spices (Nutmeg, Mace) • Rice, Tobacco • Sugar • Bananas • Fruit & Vegetables 	<ul style="list-style-type: none"> • Trinidad & Tobago • Grenada • Suriname, Guyana, Dominican Republic, Trinidad and Tobago • Belize, Cuba, Guyana, Dominican Republic, Jamaica, St. Kitts/Nevis, Barbados • Antigua & Barbuda, Dominica, Grenada, St. Vincent, Jamaica, Suriname • Cuba
Natural Resource Based Products	<ul style="list-style-type: none"> • Mineral Fuels • Alumina/Bauxite/Aluminum • Gold/Silver/Mineral Ores 	<ul style="list-style-type: none"> • Trinidad & Tobago • Jamaica, Suriname, Guyana • Guyana, Cuba, Dominican Republic
Manufactures	<ul style="list-style-type: none"> • Clothing/Garments • Handicraft • Chemicals 	<ul style="list-style-type: none"> • Belize, Barbados • Haiti • Trinidad & Tobago

Source: Nicholls, Shelton An Overview of the Implications of the Uruguay Round for CDCC Member Countries (November 1995)

4. The Caribbean countries which are significantly dependent on tourism are the Bahamas, Barbados and more recently Jamaica and the Dominican Republic. The tourism sector has increased its contribution to total export earnings in virtually all Caribbean economies since 1980. The Bahamas is an exception with a change is from 81% in 1984 to 72% in 1990. Jamaica and the Dominican Republic can be classified in the mixed categories with tourism, minerals, agriculture and manufacturing all contributing to export earnings. The data for Haiti are not fully reflective of the underlying trade patterns after 1985 given the political turmoil which has prevailed for much of the last decade. Data for Cuba were not readily available in the post-1987 period. However, it is well known that sugar exports have declined in this period with growth in export earnings from tourism and pharmaceutical.

5. A more detailed, country by country analysis of export performance shows that the export earnings of Trinidad and Tobago are dominated by crude oil and oil products.³ In the case of Barbados, the major exports are tourism services, sugar and manufacturing exports (electronic components and garments). In the case of Jamaica, the major export earners are tourism, minerals (bauxite and alumina), agriculture (predominantly sugar and bananas) and some assembly-type manufacturing (especially garments). For the Bahamas, tourism is overwhelmingly important. The Dominican Republic has an export profile which resembles that of Jamaica including tourism, sugar, coffee, cocoa and some export manufacturing (especially garments). Haitian exports also tend to be shared between tourism, coffee, cocoa, and assembly-type manufacturing.

6. In the case of Cuba, sugar was the dominant export sector up to 1987. However, since then, as noted earlier tourism and pharmaceutical have increased

³ The latter include oil which is imported and refined locally. Hence the 1980 figure of 63%.

their share - in part as a result of declining sugar production and exports. Up to 1985, the exports from the Netherlands Antilles were dominated by the offshore oil refineries located in Curacao and Aruba (which was then part of this territory). Since then tourism has become much more important, particularly in Aruba, together with offshore financial services.

7. Antigua and Barbuda depends on tourism and some manufacturing exports. For Dominica it is agriculture, predominantly Bananas which contributed close to half (47%) of total merchandise exports in 1994. Grenada reflects a similar profile to that of Dominica in terms of the dominance of agricultural exports, with a mix of bananas, nutmeg and mace and cocoa, each of which contributed some 14% of merchandise exports in 1992. For St. Kitts-Nevis, the major export earners are sugar (37% of 1992 merchandise exports), and tourism. Export earnings in St. Lucia are dependent predominantly on bananas and tourism. In the case of St. Vincent and the Grenadines it is agriculture, again with bananas being the most important crop.

8. The economic dependence of Caribbean economies on trade is reinforced by the fact that 1-3 exports of goods or services dominate export earnings. In other words, there is a significant concentration of exports. For example bauxite and alumina were responsible for 78% of Jamaica's merchandise exports in 1994 with a comparable proportion of 76% in the case of petroleum and petrochemicals in Trinidad and Tobago. This dependence is also underscored of the high trade/GDP ratios.

TABLE 2

Principal Exports and Imports of Selected CDCC Countries

Country	Principal Exports	% of Total Exports	US\$ val millions	Principal Imports	% of Total Imports	US\$ val millions
Antigua & Barbuda (1991)	Bananas			Manufactures Capital Goods Food Chemicals & fuels	26.50 14.10 68.50 14.30	69.60 36.90 179.70 37.40
Belize (1993)	Sugar Garments Citrus Concentrates Fish Products Bananas	29.00 14.20 9.80 9.20 8.40	41.50 20.30 14.00 13.20 12.10	Machinery Food Fuels Chemical Other Manufactured	27.70 20.00 13.30 10.30 35.60	67.80 49.00 32.50 25.10 87.00
Cuba (1994)	Sugar Minerals Marine Products Fruit & Vegetables Pharmaceutical	49.10 13.50 6.50 2.50 8.20	600.00 165.00 80.00 30.00 100.00	Food Beverages & Tobacco Raw Materials Fuels & Lubricants Chemicals Machinery & Transport	17.00 3.30 29.30 6.40 19.40	720.00 140.00 1240.00 270.00 820.00
Dominica (1994)	Bananas Soap	46.80 28.50	55.37 33.66	Manufactures Capital Goods Food Chemicals & Fuel	24.20 25.80 23.80 9.10	28.50 30.40 28.10 10.70
Grenada (1992)	Nutmeg & Mace Bananas Cocoa	14.50 14.50 13.00	2.90 2.90 2.60	Manufactures Capital Goods Food Chemicals & Fuel	19.40 15.20 35.50 10.50	21.20 16.60 38.90 11.50
Guyana (1993)	Sugar Gold Bauxite Rice Shrimp	27.00 24.20 22.10 8.00 2.80	111.30 99.80 91.10 33.00 11.40	Capital Goods Other Intermediate Goods Consumer Goods Fuels & Lubricants	34.90 26.60 21.30 16.70	169.30 128.90 103.10 80.80
Haiti (1993)	Coffee Cocoa Essential Oils Manufactured Product Handicraft Manufactures	0.80 0.07 0.50 4.40 0.20	0.66 0.06 0.40 3.56 0.16	Food, Beverages & Tobacco Hydrocarbons Oils & Fats Chemicals Manufactures Machinery & Transport Equipment	17.50 11.90 3.40 4.00 5.70 2.40	46.70 31.90 9.00 10.60 15.10 6.40
Dominican Republic (1994)	Ferro-nickel Raw Sugar Gold & Silver Coffee Cocoa Tobacco	28.60 18.50 3.00 9.90 8.80 2.80	181.10 117.10 18.90 62.70 55.50 17.60			

TABLE 2 (cont'd)**Principal Exports and Imports of Selected CDCC Countries**

Country	Principal Exports	% of Total Exports	US\$ val millions	Principal Imports	% of Total Imports	US\$ val millions
Jamaica (1992)	Alumina	44.70	471.10	Food	6.00	106.60
	Bauxite	8.40	88.80	Other Consumer Goods	10.30	160.50
	Sugar	7.80	82.50	Fuels	20.90	324.90
	Bananas	3.80	39.60	Other Raw Materials	52.70	818.20
				Construction Materials	5.70	88.80
			Transport Equipment	10.40	161.50	
			Other Capital Goods	9.00	139.00	
St. Kitts/ Nevis (1992)	Sugar & Molasses	37.40	12.20	Manufactures	20.70	20.20
				Capital Goods	19.20	18.70
				Food	29.00	28.30
				Chemicals & Fuels	10.40	10.10
St. Lucia (1992)	Bananas	55.80	68.50	Manufactures	27.40	74.40
				Capital Goods	13.90	37.60
				Food	35.20	95.50
				Chemicals & Fuels	1.30	3.60
St. Vincent (1992)	Bananas	48.40	37.50	Manufactures	24.70	33.10
				Capital Goods	21.20	28.30
				Food	21.90	29.30
				Chemical & Fuels	12.30	16.50
Suriname (1991)	Alumina	75.60	261.70			
	Aluminum	11.60	40.10			
	Shrimp	8.80	30.40			
	Rice & Products	5.80	19.90			
	Bananas	2.60	9.10			
Barbados (1992)	Sugar, Molasses & Rum	26.20	41.40	Machinery	17.90	83.00
	Chemicals	13.30	21.00	Food & Beverages	21.10	98.20
	Electrical Components	13.10	20.70	Other Consumer Goods	10.90	50.80
	Clothing	3.70	5.90	Construction Material	6.20	28.80
				Chemicals	6.80	31.50
				Fuels	6.40	29.80
Trinidad & Tobago	Mineral Fuels	49.80	933.10	Food	15.10	171.20
	Chemicals	27.50	515.40	Manufactured Goods	21.20	240.50
	Manufactured Goods	12.60	235.8	Machinery & Transport Equipment	29.80	338.20
	Food (including sugar)	5.10	95.40	Chemicals	13.70	155.80
	Beverage & Tobacco	2.10	30.90			

Source: Nicholls, Shelton *An Overview of the Implications of the Uruguay Round for CDCC Member Countries* (November, 1995)

Chapter II**PRINCIPAL TRADE ISSUES AND PROSPECTS OF CARIBBEAN ISLAND COUNTRIES
IN THE CONTEXT OF TRADE LIBERALIZATION**

9. Most of the larger Caribbean islands⁴ began a process of trade liberalisation in the mid to late 1980s, as part of packages of policy conditionalities linked to "structural adjustment" agreements with multilateral agencies. The objective of this liberalization process is to shift these economies away from inward-looking strategies towards export-oriented productive investment. The expectation is that this structural change will increase the competitiveness of Caribbean economies, thereby contributing to export diversification, and employment creation. However, there are transitional costs.

10. This process of liberalisation has been impacting on those import-competing sectors which were established under systems of import substituting industrialisation. A study of the likely impact of unilateral trade liberalisation on the Trinidad and Tobago economy has estimated that some 14,000 direct jobs of the manufacturing sector will be lost by end of 1996⁵. This would represent 35 per cent of the 40,000 jobs in the manufacturing sector in 1992. Witter came to a similar conclusion on the impact of trade liberalisation on the Jamaican economy⁶. Given several cautions on the accuracy of data, Witter concludes that some 14,500 jobs or 23% of employment in large manufacturing establishments or 11 % of total manufacturing employment would be lost in the short run (6-12 months) from the time of the study in October 1992. The Jamaican manufacturing sector is also reported to have lost some 30,000 jobs between 1990-1992. Now, Caribbean countries are faced with the impact of global liberalisation, as a result of the outcome of the Uruguay Round of multilateral trade negotiations, particularly with regard markets which have provided preferential access to some of the region's major merchandise exports.

A. Recent institutional developments in the world trading system

11. The completion of the Uruguay Round of multilateral trade negotiations (UR) and the creation of the World Trade Organisation represent a fundamental change in the world trading system. The UR marks a substantial advance on earlier world trade negotiating rounds. In addition to incorporating agriculture and textiles/apparel, the WTO Agreement encompasses services and trade-related issues related to both investment, and intellectual property, and non-tariff barriers.

12. The main OECD countries have anticipated the conclusion of the Uruguay Round with the formation of Regional Blocs. In the case of Western Europe, there was the rapid conversion of the European Economic Community into a border-less economic region, after several decades of incremental regionalism. In the North American case, the US-Canada Free Trade Agreement (FTA) has been augmented by the inclusion of Mexico into the North American Free Trade Agreement. There is now agreement, in principle, to create a Free Trade Agreement of the Americas (FTAA) by the year 2005. A regional bloc also is being formed among Pacific Rim

⁴ Jamaica, the Dominican Republic, Trinidad and Tobago and even to some extent Haiti, and Barbados together with Cuba (as a result of the collapse of the Soviet bloc).

⁵ Pantin, D.A. The impact of Trade Liberalization on the Import Competing Sectors in Trinidad and Tobago: with particular reference to the Manufacturing sector. Trinidad & Tobago Manuf. Ass. Dec. 1992.

⁶ Witter, M. On the Impact of the Proposed Reform of the Common External Tariff on the Cost of living and on the Manufacturing Sector in Jamaica. Planning Institute of Jamaica. Oct. 1992.

countries. There are other efforts to form regional economic groupings elsewhere in the world, including the Americas.⁷

B. Globalization

13. Globalization may be defined as the institutionalisation of the open world market economy, under the impulse of technological change. Scientific and technological knowledge will increasingly become the major determinant of competitiveness in the globalized world economy. The most concrete example is in the area of Information Technologies (IT) leading to automation of many, previously labour - intensive activities. The IT Revolution also is leading, via cable and satellite television, to high-powered marketing, not merely of products but also of metropolitan cultural norms across the Caribbean.

14. At a more general level, globalization involves the integration of production (including services) across the artificial barriers of the nation-state. Globalization is a geographically-wider manifestation of the pressures which more competitive firms place on others within their home market. Firms in any country will find it increasingly difficult to ignore competitive pressures across dispersed geographic spaces as globalization trends create powerful domestic and foreign business and consumer interests hostile to the use of protectionism. Globalization, therefore, will affect the competitive basis of Caribbean exports (particularly those created around cheap, unskilled labour) while increasing competition to import substituting industries.

C. The implications of the new multilateral trade framework on the Caribbean island economies

15. As the World Bank notes, "There is no consensus on how to measure liberalization properly."⁸ A similar conclusion was reached in a study, commissioned by the CARICOM Secretariat, on the likely impact of the UR on CARICOM countries: "The benefits of the UR are hard to quantify for the CARICOM member states. The economic models used to estimate the projected changes depend on many assumptions. While they have some validity at the level of world trade as a whole, their utility is limited to a few countries, such as the major economic powers, and to the principal commodities of traded goods. The benefits and costs for the CARICOM member states must be analyzed and interpolated indirectly, using predictions for those major trading partners and their principal trade commodities, goods and services."⁹

a. Market access

16. The World Bank has expressed the view that the UR will lead to a boom in world trade between 1985 and 2005 thereby benefitting all participants.¹⁰ Greenaway and Milner have attempted to project the impact of the UR on Commonwealth Developing Countries (CDCs), thereby including English-speaking Caribbean countries¹¹. These authors have recorded the percentage tariff

⁷ For a recent assessment of "Free Trade in the Americas" see Canada, Senate of. Free Trade in the Americas: Interim Report of the Standing senate Committee on Foreign Affairs. August 1995.

⁸ World Bank Policy Research Bulletin, Vol.6. No.1. January/February 1985.

⁹ REDMA Group The Uruguay Round Agreements: Implications for the CARICOM Region. First draft of report prepared for the CARICOM Secretariat. August, 1995.

¹⁰ World Bank Policy Research Bulletin. Vol.6. No.1. January/February 1985:1)

¹¹ Greenaway, David and Chris Milner. The Uruguay Round and Commonwealth Developing Countries: An Assessment. Commonwealth Secretariat. June, 1994.

reduction in products of current high export interest to Commonwealth Developing Countries (CDCs), including the Caribbean. They have looked at the impact on market access of the UR tariff reductions on more specific product groups of interest to CDCs and their conclusions are now summarised below.

17. The Most Favoured Nation(MFN) tariff averages will decline by 40%, 50% and 20%, respectively on tropical products, tropical non-agricultural products, and on natural resource based products. The downside of this for CDCs, and in particular Caribbean countries, is that since these are global tariff reductions, preferential margins under Lomé and the Generalised Systems of Preferences(GSP) will naturally decline. Greenaway and Milner cite GATT calculations that preference margins will decline by 82% in the case of Canada; 61% for Japan, 50% for the USA and 32 % for the EEC with the concentration of such declines in the agricultural sector.

18. The UR was successful in bringing textiles and garments under its rubric for the first time since the industrialised countries initiated the Multi-Fibre Agreements some 30 years ago to protect their domestic industries from imports. However, the process of liberalising textiles and garments will take place over 10 years¹².

b. Caribbean-Specific Impact¹³

19. In his study, Davenport looks at the impact of the UR on the English-speaking Caribbean.¹⁴ He notes that, "The total estimated loss to Commonwealth Caribbean exports is \$ 150 million, of which Jamaica account 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 % of 1992 exports to the OECD....The Caribbean countries outside of 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."

20. This result is anticipated due to the impact of tariff changes primarily on preferentially traded goods from the Caribbean and the anticipated increase in the price of temperate agricultural commodities as a result of declining protection and subsidisation of the latter sectors. The two most important products which are likely to experience a negative effect as a result of the UR are bananas and sugar.

21. The production of bananas has been a major contributor to the economic mainstay of some Caribbean islands as well as South and Central American countries. Bananas were responsible for 69% of Dominica's merchandise exports in 1992, 59% of those of St. Lucia in the same year, and 42 % in the case of St. Vincent. Whereas the comparable contribution of bananas to merchandise exports were, in 1992, 36% in the case of Honduras, 29% in Panama and 20% in Costa Rica for the same year. The banana industry is dominated by small holder operators in the Caribbean. 69% of the bananas holdings in Dominica are under 1 acre; for St. Lucia, the comparable figure is also 69% and for St. Vincent it is 61%

22. Most of the bananas from the English-, and Spanish-speaking Caribbean, and Americas are exported to Europe. As of July, 1993, there were three (3) major

¹² Greenaway and Milner cite a study by Stevens and Kennas which reports that the EU will liberalize less than 1 per cent (0.12%) of the previously restricted trade in Phase 1 of the transition

¹³ Since 22 February 1996, all Caribbean island States are members of the World Trade Organization.

¹⁴ Davenport, M., Impact of the Uruguay Round and NAFTA on Commonwealth Caribbean countries with special reference to Jamaica. Commonwealth Secretariat, May 1995.

sources of supply of bananas to the European Community/European Union: bananas grown and marketed in the EU itself; (ii) ACP bananas provided, in the main, by the Caribbean (8.8%) and Africa (5.7%); and (iii) bananas provided by Latin American producers with 62.3% of the market. It is obvious from these data that Latin American banana-producing countries are the dominant suppliers of bananas to the European market. The latter can be divided into three (3) distinct sub-markets: a preferential market in France, the UK, Spain and Italy; (ii) a duty-free market in Germany; and (iii) a market subject to a 20% tariff in the Benelux countries viz, Belgium, Netherlands and Luxembourg.

23. The main explanation of the preferential market access is the fact that although the Caribbean- particularly the English-speaking Caribbean has, for a long time, been a net exporter of bananas to the EU, production costs are relatively higher in this region: "Productivity and quality levels are higher in Latin America due to a more favourable climate, topography and soil types. As a result, by far the more important contributors to the international banana trade are Central and South American exporters, commonly known as the dollar banana "suppliers".¹⁵ On July 01, 1993, the existing trade regimes for the supply of bananas, were replaced by what has become known as the New Banana Regime (NBR). The main elements of the NBR include:

- basic tariff-free quotas for ACP bananas at levels no less than traditional supplies;
- tariff levied on banana imports from Latin America up to a fixed 2 million tonne quota at a duty of ECU 100 per tonne and a tariff of ECU 850 per tonne on imports in excess of that level;
- a limit on the entry of Latin American bananas to the EU if traditional ACP and DOM supplies are disrupted.

24. Concerns by Latin Americans with regard to the terms and conditions outlined in the NBR eventually led to an agreement to increase their quota under the NBR from 2 million tonnes to 2.1 million tonnes in 1994 and to 2.2 million tonnes in 1995. This "Framework Agreement" (essentially an addendum to the NBR) became operative from January 01, 1995. GATT has been used as a means of recourse for the Latin American producers disgruntled with their terms under the NBR. In a GATT panel decision published on February 11, 1994, the NBR was condemned as discriminatory and inconsistent with GATT. The panel called on the EU to have the NBR dismantled.

25. For CARICOM banana producers, any reduction in preferences, as a result of the implementation of the UR, could have serious economic repercussions. One immediate consequence is that CARICOM producers will have to compete with cheaper "dollar bananas" provided by the Latin Americans. In response to this situation, the EU has proposed direct aid to improve the quality of ACP producers' bananas. This proposal has not yet been ratified and it is anticipated that several member states of the EU may oppose its ratification given the "preferential" policy which ACP countries currently enjoy. The NBR will be in effect until 2002 by which time it is hoped that CARICOM producers will be able to compete profitably against the more efficient Latin American producers.

26. With regard to sugar in 1992, the Caribbean exported some 539,000 tonnes to the EEC and US combined. The principal sugar producing countries among Caribbean islands are Jamaica, Trinidad and Tobago, Barbados, St. Kitts/Nevis, the Dominican Republic and Cuba. The major sugar exporters of CARICOM exported some 2.24 million tonnes of sugar with a gross value of US \$997.5 million between 1985 and 1990. The combined export earnings from sugar and molasses in the same period were US \$1029.5 million of which sugar contributed 97 percent and molasses 3 percent. Sugar and molasses continue to contribute a significant proportion of agricultural production and exports, and account for sizeable employment, in some Caribbean island economies. Sugar exports, in terms of agricultural production, in Jamaica and Barbados were 35% and 32 %, respectively. Exports of sugar and molasses dominate total agricultural exports from these countries

and were as high as 95% of this total in the case of Barbados. Exports of sugar and molasses also contributed 17% of the domestic exports of Barbados.

¹⁵ REDNA Group, op.cit.

27. Caribbean sugar producers have been depending on preferential access to metropolitan markets for a long time. Sugar exports go mainly to the EEC and the US markets and most Caribbean sugar exporters benefit from the EEC Sugar Protocol quota. Under the EEC Sugar Protocol, there is a guarantee of preferential prices for Caribbean sugar and these prices are fixed against the EEC's domestic sugar prices. As such, the Sugar Protocol has ensured sustained export earnings for Caribbean sugar producing countries.

28. Additionally, under this protocol, the EEC has agreed to buy specific quantities of sugar from particular Caribbean countries, including Jamaica, each year through the duration of the Lomé IV Convention. However, the recent harmonization of the EEC market has posed a threat to the continuation of the preferential prices which Caribbean sugar exporters currently enjoy. Davenport has estimated, that the UR will lead to a net reduction in export earnings of some \$ 21 million with a noticeable gain for the Dominican Republic as opposed to declines for most other sugar-exporting Caribbean economies.¹⁶

c. The impact of regional trading arrangements on the Caribbean region

(i) NAFTA

29. The United States is CARICOM's main export market. CARICOM exports to the United States grew from US\$1927 million in 1988 (36% of total CARICOM exports) to US\$ 2494 million (44% of total exports) in 1994. About one-third of CARICOM's imports also come from the USA. Some general studies have attempted to project the trade-, and investment-diverting impact of NAFTA on the Caribbean relative to Mexico.

30. Rodriguez notes that countries which are beneficiaries of the Caribbean Basin Initiative(CBI) enjoy preferential access over Mexico on only 7 per cent of CBI exports to the USA and that NAFTA's provisions could place 60 % of exports to the USA from Caribbean Basin countries in a disadvantageous position in terms of tariff and non-tariff barriers.¹⁷ Rodriguez further notes that NAFTA increases the attractiveness of Mexico in terms of foreign investment for two reasons: "First, concessions to Mexico will be on a contractual FTA which is more secure than the unilateral CBI concessions. Second, investors will know the end result of the process of increasing concessions from the beginning and will act accordingly." There also have been several recent studies looking in more detail at the potential implications of NAFTA for the Caribbean.¹⁸ The two most significant Caribbean export sectors which are expected to be affected by NAFTA are Textiles and Apparel and Processed Foods.¹⁹

31. The Apparel and Textiles subsector is of major significance to Caribbean countries in terms of employment, foreign exchange earnings and GDP contribution. Jamaica leads in CARICOM apparel exports. There were 322 registered apparel factories in Jamaica in 1994. The sector contributes approximately 5 percent

¹⁶ Davenport, op.cit.

¹⁷ Rodriguez Enmio. Central America. Common Market, Trade liberalization and Trade Agreement. Conference on Economic Integration in the Western Hemisphere: Prospects for Latin America. Univ. of Notre Dame. mimeo. April, 1993.

¹⁸ See G.S.R. Associates Report on the NAFTA for CARICOM Secretariat. June, 1994. Also for summary "think pieces" see:
 - Gill, Henry, the NAFTA problematic and the Challenges for the Caribbean Community. North-South Centre Caribbean Program. Sept. 1993.
 - CRS, Report for Congress (US), Caribbean Basin Countries: Implications of NAFTA. May, 1993.

¹⁹ The side-agreements of NAFTA on labour and the environment also may have some trade implications but these need to be interpreted from more detailed studies

of the total GDP of the Jamaican manufacturing sector, equivalent to about 1 percent of the country's GDP. The major market for Jamaican exports of textiles/apparel is the USA (80%) with Canada, Europe and the Caribbean accounting for the remaining 20 percent. Between 1989 and 1993, the gross foreign exchange contribution of the apparel/textile subsector, to the Jamaican economy was US \$1667 million (approximately 31 percent of total merchandise exports). The subsector contributes approximately 36 percent of the employed labour force in the manufacturing sector (95,000 in 1993). It contributes a comparable proportion to the main economic indicators noted for Jamaica in the case of the Dominican Republic. Barbados and Trinidad and Tobago also are significant apparel exporters.

32. NAFTA provides for the elimination of import duties and the reduction of non-tariff barriers on textile and apparel exports (from Mexico). It has been suggested that these provisions are likely to affect CARICOM apparel and textile producers in two ways. First, the larger and easier market access for Mexico's apparel/textile goods under the preferential trading terms, may lead to displacements of CARICOM apparel/textile exports for the benefit of Mexican producers. Second, on the average, Mexico's labour costs in the garment industry are approximately 27 percent lower than CARICOM's average of US \$1.12 per hour. As a result, low cost, high volume garment manufacturers may find a greater cost-competitive advantage in locating their plants in Mexico, instead of Caribbean countries like Jamaica²⁰ or St. Lucia.

33. Davenport (1995) draws conclusions, based on a partial equilibrium trade model, with respect to clothing exports, and projects a clothing trade diversion of 3.5 percent (between US \$13.1 and \$17.6 million). He suggests that the sector where trade diversion is likely to be greatest is apparel, particularly apparel exports from Jamaica. Evans (1995) draws similar conclusions. There already may be some indicator of apparel trade diversion from CARICOM and other CBI countries to Mexico. For the first six months of 1994, 807 A apparel imports from Mexico in the US market grew by 183 percent (up from US \$304 million in 1993 to US \$860 million in 1994) while there was a 2 percent decline in 807A apparel imports from CBI countries. The 2 percent decline in 807A apparel imports from CBI countries into the US market compares with an average annual growth rate of 22 percent to 24 percent prior to the implementation of NAFTA.

34. The processed food sub-sector also is significant in the Caribbean. The most important products are sugar and citrus. The citrus industry ranks second as a source of foreign exchange earnings. Between 1985-1990, the total value of exported orange juice by CARICOM members was US \$86.15 million while that of grapefruit juice and concentrates was \$31.32 million, giving a combined foreign exchange contribution of US \$117.47 million. Much of this citrus is exported to the United States, together with a proportion of sugar exports.

35. Over the first six years of NAFTA, the US will reduce its tariff on sugar imports from Mexico by 15 percent, after which remaining sugar tariffs will fall to zero. Evans (1995) suggests that the US importation of duty-free sugar from Mexico is not likely to have any negative impact on CARICOM's sugar trade with the US. The main reason for this conclusion is the fact that Canada is not a sugar exporting country, while the USA and Mexico are net importers of sugar.

36. With respect to citrus, Jamaica and Bahamas are among the main CARICOM exporters of citrus to the USA and Canada. Jamaica exports frozen concentrated orange juice, fresh grapefruit, tangerines and mandarins to the USA. Under NAFTA, tariffs on citrus will be phased out over 5 to 10 years. Additionally,

increased US investments in Mexico's citrus industry are expected, given the lower labour costs in Mexico and the labour-intensive nature of citrus growing.

37. Davenport (1995) estimates that Caribbean exports of raw or processed agricultural goods to North America will not be greatly affected by NAFTA. The main effect is likely to be through investment in food-processing industries in

²⁰ The hourly labour costs in the industry in Jamaica are US \$0.91 compared to US \$0.88 in Mexico.

Mexico. This could impinge on the Caribbean in a number of sectors, including ethanol. Jamaica exported some \$9 million US of ethanol to the US in 1992. These sales could be endangered by reduced costs through additional investment and economies of scale in the larger Mexican industry.

ii). European economic integration

38. Stevens has attempted to project the impact of European Economic Integration on the African, Caribbean and Pacific countries which benefit from the Lomé Agreement²¹. Robertson also has attempted a similar exercise for small island states, thereby including the Caribbean²². Stevens and Robertson both conclude that the deepening of the liberalisation process in Western Europe will have negative direct impacts on the Caribbean relative to their current areas of preferential access. Stevens notes in this connection that: " Whereas the NICs may fear a 'Fortress Europe' the main danger for the Caribbean is the exact opposite: that the fortress is being dismantled!" Caribbean exports of bananas and sugar from the English-speaking Caribbean appear to be most at risk for the reasons detailed earlier.²³

d. General observations

39. The response of any country to negotiated changes in the world trading regime can be evaluated in terms of three time-related phases. The first relates to responses prior to the start-up of negotiations. The second possible response relates to the actual process of negotiated change, for example, active participation in the Uruguay Round negotiations. The third response is with respect to addressing the implications flowing from the completion of negotiated changes in the world trading regime of which, the UR, is the best example. In terms of conducting an evaluation of Caribbean responses within these three phases one could seek to identify whether these three types of policy responses came at the national, sub-regional or regional level.

40. Within the context of this evaluatory framework several general observations can be made in terms of Caribbean responses.²⁴ First, Caribbean countries have had a very limited presence in terms of the first two phases of the UR. Most Caribbean countries did not actively participate in UR

negotiations. In the case of the CARICOM countries, for example, only a few Caribbean countries maintain permanent diplomatic missions in Geneva.²⁵

41. Second, since the completion of the UR, Caribbean countries have been attempting to respond to the time-table of demands for notification to the WTO in terms of implementation of the concessions. The implication is that Caribbean countries have not had the time to study all the UR Agreements in terms of their long run implications and pro-active policy responses. In the case of two

²¹ See the following works by Christopher Stevens:
 - Non-Technical Experts from Jamaica Overseas Development Institute. London. mimeo. Jan. 1990.
 - The European Single Market: Implications for Caribbean Manufacturing and Agricultural Trade. Senior Policy services on EC and the Caribbean in the 1990's. Caribbean Development Bank. Nov. 1990

²² See Robertson, D. EEC 1992 and the small island States., mimeo National Centre for Development Studies, The Australian Univ., 1990.

²³ See 2.3.2(a) and 2.3.2(b)

²⁴ This Section is based on interviews conducted with public and private sector officials in Trinidad and Tobago, Guyana (including the Caricom Secretariat), Barbados, Jamaica and Cuba. See Appendix 1 for a list of persons interviewed.

²⁵ Jamaica, Trinidad and Tobago, Dominica, Cuba, the Dominican Republic and Haiti.

Caribbean countries where interviews were conducted, inter-Ministerial teams have been established to study different aspects of the WTO framework relevant to the Ministries involved. Third, with the exception perhaps of the Organisation of Eastern Caribbean States, policy responses have been largely conducted at the national level. This appears certainly to be true of the first two phases. There has been greater regional cooperation in terms of the Lome Agreements as a result of the insistence of the EEC in dealing with regional groupings in Africa, the Caribbean and the Pacific. At the 1995 meeting in Denver, Colorado on the Free Trade Agreement of the Americas, there was a greater degree of regional cooperation. In the current, post- UR phase, the CARICOM Secretariat has become involved in seeking to coordinate the responses of its members to the demands of the WTO.

42. Perhaps the most striking observation that can be made in terms of the current phase of responding to the demands of the UR. Public officials seem to be stretched beyond their limits of effective response. The public sector officials allocated to trade policy matters tend to be few in number and subject to problems of retaining those who have acquired some expertise in the field. These few officials, which in most Caribbean countries could be less than five in number, are responsible for effectively monitoring the large range of trade-related issues. Unavoidably, there is a loss of focus, of detail, and of anticipatory capacity. Moreover, some of the technical requirements for meeting WTO commitments are not necessarily met by the officials assigned as the latter are predominantly economists while many of the issues are legal or even scientific (e.g. phytosanitary requirements).²⁶

43. The regional private sector has not been actively involved in formulating national or regional positions on these trade issues whether in an advisory or policy capacity. However, there has been some national variability in the presence of the Caribbean business sector in national delegations at international trade policy fora. A similar situation exists with regards to the presence of the private sector in the responses post-UR demands. Furthermore, the regional private sector seems to be largely out of touch with the details of the new multilateral trade framework. In fact, private sector individuals interviewed did not seem to be aware of the large range of national commitments which flow from the UR. Public sector representatives in Ministries of Trade, for example, are better informed as to the implications and time-tables for implementation, than the private sector. In the case of the latter, most of those interviewed seemed to have little specific knowledge about the implications of the UR in terms of general requirements such as tariff bindings and more so in terms of more specific implications for sectors or commodities. The private sector seems to be moved by a view that there are some commodities or sectors which are likely to continue to be profitable.

²⁶ In the case of one Caribbean country, officials admitted of their ignorance on the implications of the commitments in terms of Services and organised attachments for two economists to the WTO in Geneva. This country has since shared this expertise with two other neighbouring and smaller islands.

Chapter III**THE SCOPE FOR SUSTAINABLE TRADE DIVERSIFICATION IN CARIBBEAN ISLAND COUNTRIES IN THE CONTEXT OF TRADE LIBERALIZATION AND GLOBALIZATION**A. Some patterns of trade specialisation in the Caribbean

44. A number of summary points can be made on Caribbean trade. First, historically Caribbean economies began, in the post-Columbian period, as the purest forms of export-propelled economies which, in what has become cliched jargon, "produced what they did not consume, and consumed what they did not produce." In this sense there was a virtual perfect correlation between trade and total output. Second, Caribbean economies began with a specialisation in the production of primary commodities for export, originally cane sugar, followed later by other agricultural crops, and then minerals such as bauxite and oil. Third, with the declaration of free trade in sugar by Britain, in the 19th century, a significant share of Caribbean output has been dependent on preferential access to metropolitan markets. Fourth, attempts at diversification in the post-world war II period, and particularly after political independence, have been generally unsuccessful as a result of a bias to easy import substituting industrialisation. Fifth, most Caribbean countries have been rapidly liberalising their economies from the turn of the 1980s in the context of structural adjustment programmes, supported by the multilateral agencies. The new export-oriented strategies have been predicated on the attractiveness of cheap labour to investors, particularly foreign ones, specialising in labour-intensive, relatively unskilled export production, or in tourism.

45. The end of the 20th century finds Caribbean economies still dominated in terms of export earnings, and hence economic prospects, by the fortunes of sectors which are dependent on preferential access. This is true not merely of the agricultural sector but also of some of the new labour-intensive activities, particularly in the areas of garments. This is, of course, not the entire picture. Tourism has become a dynamic, internationally competitive sector. Ecocultural tourism is a small but rapidly growing segment within the overall tourism picture. There is also some downstream investment, certainly in natural gas-based products in Trinidad and Tobago.

46. In the context of trade liberalisation, some manufacturers have proven to be very innovative in finding 'niche' markets in the wider Americas, and even further afield. Information processing industries have been growing rapidly. It is against this background that the scope for sustainable trade diversification in Caribbean island countries in the context of trade liberalization and globalization is being briefly examined below.

B. Sectoral developments

47. The data potential of biologically-based products is substantial in the Caribbean²⁷. Casual evidence points to the opportunity. 'Blue Mountain' Coffee from Jamaica and a range of liquors and similar products already are on the international market. In one case, 20% of the company's sales are reported to be exported.²⁸ Another entrepreneur/innovator in Trinidad and Tobago has been able to penetrate markets for herbal cosmetics and hopes to increase foreign sales from a 1995 level of 27% to 40%.²⁹

48. Another interesting sector is that of Information processing. As of March, 1995, an estimated 7,500 people were employed, by some 74 companies

²⁷ Seaforth C. "Agricultural Production and Natural Products" in A. Mohammed and D.A. Pantin (eds.): Planning for Sustainable Development in the Caribbean. UWI/McGill. 1995.

²⁸ Sangster's rums and liquors. Sunday Express. Trinidad. Feb.13,1994. page 8.

²⁹ Herbarium Ltd. Supplement. Sunday Express. Trinidad. Dec.10,1995.

involved in the export-based information processing industry in the Caribbean. Regional employment in the industry in 1992/3 at some 5,000. In so far as these estimates are based on comparable surveys, it is suggestive of a 50% increase in employment in this sector in the Caribbean within 2-3 years. The industry is concentrated in three Caribbean countries: Jamaica, Barbados and the Dominican Republic which were collectively responsible for 90% of the total number of companies as well as employment in the region. Jamaica accounts for the largest number of enterprises (82%) and employment (47%).

49. Data-entry processing is the most common form of information processing activities in the Caribbean and the United States is the major market destination. There were some thirty-two (32) information processing firms operating in Barbados in March, 1995 with fourteen (14) involved in export-based information processing. The latter grew from 10 in 1988 to an estimated 14 by the end of 1994. The number of jobs created by the export-based information processing industry in Barbados has grown by 141 per cent over the period 1988-1994, from 947 employees in the former year to 2282 in 1994. The Information Processing sector in Barbados also has been recording a growing share of employment in the Manufacturing sector with which it is grouped by official data sources. Its share grew from 12% in 1988 to a peak of 24% in 1992 before declining somewhat to 17% in 1994.

50. In the case of Jamaica, the number of firms involved in export-oriented information processing grew from two in 1986 to 29 in 1989, fell to 20 in 1991 and then grew to 49 by end 1993. Employment also grew over the period from 300 to a little over 3000. Investment in the sector has been estimated at US\$ 100 million between 1984-1989. The net foreign exchange earnings of the information processing sector in Jamaica are estimated to have grown from US\$ 1.5 million in 1986 to US\$ 17 million in 1991.

51. The export-based information processing industry is of more recent vintage in the rest of the Eastern Caribbean with a few firms existing in Trinidad and Tobago, Grenada and St. Lucia. There also are reported to be two large operations in the Dominican Republic, one being a subsidiary of American Airlines, which also runs the single largest firm in Barbados.

52. Tourism has been the major growth sector throughout the Caribbean over the last decade. Some 14 million tourists visited in the Caribbean in 1994 and spent an estimated US\$ 11,668 million. However, the tourism market is itself in a state of flux as consumer taste shifts from 'mass' to 'specialised' tourism. Eco-tourism is the segment in which the Caribbean has some potential. Countries have been attempting to add eco-tourism elements to their existing tourist attractions. One of the main indicators of a growing eco-tourism perspective is the establishment of reserved nature areas whether on sea or land. A 1994 survey conducted by the United National Environmental Programme (UNEP) provides some details, as captured in Table 19 which shows that there were 46 terrestrial protected areas in the 10 Caribbean islands surveyed, together with 9 coastal protected regions and 7 areas which were under marine protection.

53. The UNEP survey also attempted to capture the popularity of different destinations. Although no details are provided for Barbados, it is well known that two of its major tourist attractions are Harrison Caves and an underwater submarine available for viewing marine life. In the case of Tobago, Buccoo Reef is a major attraction, drawing an estimated 40,000 visitors per year.³⁰ In the case of Trinidad, The Asa Wright Nature Reserve and the Point-a-Pierre Wildfowl Trust have gained international recognition. The UNEP survey also has attempted to describe growth plans in terms of its survey published in 1994.

54. Another growing sector, somewhat linked to tourism, is that the export of Caribbean music³¹ In the case of Jamaica export sales of recorded and printed

³⁰ Much of which comes from internal tourist arrivals from Trinidad but the share of foreign visitors has been growing.

³¹ The data that follows comes from Bourne and Alsopp. See Boneue, C and M. Alsopp - The potential of Cultural Service Exports from the Caribbean. Conference on Services in the Caribbean. Jamaica. mimeo. 1995.

music totalled US\$ 1 million between 1988-1994; Bob Marley's estate earns annual royalties of US\$ 250,000. Three top Reggae performers³² are reported as having annual incomes ranging between US\$ 250-750,000. Sales of Reggae music in the United States are estimated to have been US\$ 270 million in 1992/93. "Japan Splash" is estimated to draw some 100,000 in concerts across that Asian country. In the case of Trinidad and Tobago, US\$ 0.54 million is estimated to have been earned between 1989-1994 in exports of steelband music instruments to the United States (50%) and 34 other countries. Another \$ 91,000 is estimated to have been earned over the same period in exports of recorded music.

55. These data are partial and do cover the contributions of island cultural festivals (Reggae Sunsplash, jazz festivals, Cropover in Barbados, Heritage Month in Tobago, Carnival in Trinidad and Tobago,) and the metropolitan versions, particularly of the latter (e.g. Labour Day in Brooklyn, Caribana in Toronto, Brixton Carnival in London, and many smaller variants throughout North America and some European cities). These cultural activities are globally competitive and flow from initiatives at cultural expression, rooted in the Caribbean society.

56. Over the last two decades, the Caribbean has become a leading region in the offshore financial and legal services industry, and has demonstrated a remarkable ability to respond to the diversification of the international demand for offshore services. After a period of rapid development of offshore banking activities during the 1970 decade and until the mid-1980s, the sphere of Caribbean offshore investment services has become more complex, as island jurisdictions have adopted new legislation to attract offshore business. Competitiveness has become vital in the industry, and innovation in the development of offshore products has been successful. In particular, Caribbean jurisdictions have become competitive in responding to the needs of international enterprises that are interested in swift offshore company formation that enables them to operate in the rapidly changing global environment. It is important to note that considerable efforts have been made by these countries, in recent years, to regulate and monitor the industry with a view to preventing offshore jurisdictions from harbouring criminal financial activities.

57. Caribbean offshore jurisdictions accounted for 74% of the total number of offshore companies registered in all island jurisdictions at the end of 1994. The leading Caribbean offshore banking centres are presently the Bahamas, the Cayman Islands and the Netherlands Antilles. Non-banking offshore services are also available in these territories. The highest individual country ratio of total number of registered offshore companies to the population, among all island regions, is found in the British Virgin Islands.

58. A growing sector of service activities, in the Caribbean, is the film support industry. This sector provides film makers with a range of goods and services that require planning, coordination and reliability. Offering the greatest possible local input while meeting international standards of quality is the challenge which Caribbean islands try to face in this sector. Not all film enterprises that come to the islands and use support services relate to the tourism industry. However, films are generally expected to reflect the environmental qualities of the islands, thereby having a promotional impact, either in attracting tourists or in portraying qualities that are relevant to business.

59. The other benefits received by island countries from film support activities derive from the multiplier effect of the filmers' expenditure (government fees, short-term wages, purchases of various goods and services, etc.). The film support industry therefore benefits island economies in a way that is similar to that of tourism activities. In some countries and territories of the region, the government has appointed a Film Commissioner to facilitate and coordinate the provision of goods and services required.

60. Although this is an unplanned activity and one which does not have the slightest chance of being liberalised, export of labour services do provide a

³² Shabba Ranks, Buju Banton, Lady Patra.

significant source of foreign exchange inflows to many Caribbean countries. The estimates of net labour service earnings for several Caribbean islands as well as such inflows as a percentage of merchandise exports are as follows: in the case of Antigua such labour service inflows were equivalent to 62% of merchandise exports;³³ in the case of Grenada it was 85%; St. Vincent and the Grenadines, 37%; Jamaica, 17%; St. Lucia, 15%; Barbados, 9% and Belize, some 10%.

Chapter IV

REGIONAL TRADE COOPERATION FOR TRADE DEVELOPMENT

A. CARICOM

61. Following the collapse of the short-lived Federation of the West Indies (1958-1961), the strategy of regional economic integration began in 1967 with the formation of the Caribbean Free Trade Agreement (CARIFTA). This interim stage was soon superseded, in 1973, by the Chaguaramas Treaty which established CARICOM. The Chaguaramas Treaty provided for several forms of integration from the convention market integration to the less orthodox production integration. CARICOM has now moved to the stage of the single market and economy. The very fact that CARICOM has been able to survive and to deepen regional economic linkages is a success given the fate of so many other regional integration experiences elsewhere in the developing world. Beyond this, there are two major areas of action: free trade and functional cooperation.

62. CARICOM has been successful in the virtual elimination of tariff and non-tariff barriers to the free movement of goods and services among member states. A Common External Tariff (CET) is in place and a ceiling tariff of 20% will become operational as of Jan.1,1998. Barriers to cross-border investments in national stock exchanges have also been lifted. The process of eliminating barriers to labour movements have been initiated for graduates from the University of the West Indies and the University of Guyana. Discussions have been underway on a common regional currency.³⁴ There has been success in the harmonisation of fiscal incentives to foreign investors, although there has been some slippage on this score.

63. Functional Cooperation has also been an area of success of CARICOM. Examples include secondary school examinations (Caribbean Examinations Council), Health and Meteorology. Functional cooperation with a more direct bearing on sectoral development include the Windward Islands Banana producers (WINBAN) and a project of the Caribbean Tourism Association (CTO) to market the Caribbean as a single tourist destination. The CARICOM Treaty also includes several provisions which, in effect, seek to influence the location of sectoral activities within the Caribbean Community. The three main categories of CARICOM-wide policy initiatives relate to agriculture, manufacturing and regional enterprises.

64. From the very onset of CARICOM, efforts were made to influence the nature of regional agricultural production. This began with the Agricultural Marketing Protocol, the Oils and Fats Agreement and the Guaranteed Markets Scheme. These three programmes essentially sought to provide a guaranteed market in the four larger CARICOM countries for agricultural output from the OECS countries (and Belize)³⁵. This initial programme was relatively successful but the products involved represented only a small proportion of output in the targeted regional countries as well as of intra-CARICOM trade.

³³ Note, however, that Antigua is a tourist-dependent economy.

³⁴ Already, the sub-regional grouping of the Organisation of Eastern Caribbean States share a common currency- the Eastern Caribbean dollar.

³⁵ Predominantly root crops and coconut products.

65. A more ambitious Regional Food Plan was adopted by the 1975 Conference of Heads of Government. The "Caribbean Community Programme for Agricultural Development" (CCPAD) was developed over much of the 1970s and 1980's at the CARICOM Secretariat. Pre-feasibility and feasibility studies were conducted on a number of regional agricultural products including: grains, legumes, fruits and vegetables, spices and essential oil, livestock and livestock products, fish and fish products and oils and fats. Individual CARICOM countries were identified as the most appropriate locations for such agricultural production based on a mix of economic and political criteria.

66. An effort similar to that of the CCPAD programme for manufacturing also was initiated by the CARICOM Secretariat in the 1980s. The focus was on regional investment projects. Several forms of protection were proposed for the initial period of establishing these regional industries. On the basis of a report on an "Industrial Programming Scheme for CARICOM" by the CEGIR Consulting group, the CARICOM Secretariat commissioned follow-up feasibility studies by consulting organizations. In the light of the result of these studies a number of potentially viable projects were identified together with recommended locations. The CARICOM Heads of Government meeting in 1985 agreed on the establishment of a CARICOM Industrial Programming Scheme (CIPS) with eighteen projects allocated to member states. The meeting also recommended that the CIPS be established within the framework of a Protocol on Industrial Programming. The final text of this Protocol was agreed upon in 1988 but it took a further three years (to 1991) before the last signature was appended to the Protocol.

67. As early as 1976, three years after the signing of the Chaguaramas Treaty, agreement was reached by CARICOM Finance Ministers for the creation of a CARICOM Enterprise Regime (CER). This agreement committed CARICOM countries to provide special, and positively discriminatory policy support for the creation of regional enterprises engaging in production integration in the agricultural, manufacturing and mineral sectors. The special provisions related to areas of credit; remittance of profits; import protection via quantitative restrictions and fiscal incentives. The latter were only available to agriculture, tourism and forestry.

68. A number of other regional enterprises also have been formed by CARICOM countries in the area of infrastructure. The Leeward Islands Air Transport Company (LIAT) is one example. Others are the West Indian Shipping Company (WISCO), and Caribbean Air Cargo (CARICARGO). A final example is that of the joint venture Arawak cement company between Barbados and Trinidad and Tobago.

69. The attempts at regional production integration in terms of both agriculture, industry and regional enterprises seem to have been overcome by events, including unilateral trade liberalisation among the large CARICOM countries, the Uruguay Round, NAFTA and the impending FTAA. The CARICOM Secretariat has diagnosed limitations in the administration of these programmes as having played a major role in the actual outcomes. In 1991 the CARICOM Secretariat undertook a review of the experience with the allocation of industries and concluded that, at the national level, no guidelines had been established for these projects and no specific action had been undertaken.

B. Free Trade Agreement of the Americas (FTAA)

70. CARICOM also was involved in the December, 1994 Miami Summit of the Americas where there was an agreement to form a Free Trade Agreement of the Americas (FTAA) by 2005. At a meeting called in Denver, Colorado in 1995 to begin discussions on the implementation mechanism of the FTAA, six working groups were formed. One of these is on Small Economies with Jamaica in the chair. The understanding seems to be that CARICOM will be involved in this Working Group and at least one meeting has already been called to involve regional institutions in this process.

C. Association of Caribbean States (ACS)

71. The most significant independent initiative taken by Caribbean countries to address the changing global economic environment has been the formation of

the Association of Caribbean States (ACS). The membership of this body includes Caribbean and Central American countries and the G-3 countries (Mexico, Venezuela and Columbia). The ACS is not a regional trade agreement but contains the possibility of evolving in this particular manner. The ACS is a system of cooperation with trade liberalisation mentioned but there are no mechanisms for trade integration although Article 20 permits two or more members to form trade integration. At the launching of the ACS in Trinidad in late 1995, the three economic issues tabled for discussions in terms of cooperation were those of tourism, trade and transportation. CARICOM also has signed special one-way trade agreements with Columbia and Venezuela. Trinidad and Tobago has negotiated a Partial Scope Agreement with Venezuela.

D. The special case of Cuba

72. The critical question in terms of Cuba is what would be the implications for the rest of the Caribbean of the lifting of the US economic embargo on Cuba. US firms already are reported to be surveying the prospects,³⁶ while the European Economic Community sent a delegation to Havana in November of last year.³⁷ One perceives potential trade and investment opportunities in the Cuban market of 11 million people if the embargo is removed. Cuba has signed the WTO Agreement and has reportedly established 20 inter-ministerial committees to study the implications for the Cuban economy. At the hemispheric level, Cuba has signed Bilateral Agreements with members of ALADI- Mexico, Columbia, Venezuela, Ecuador, Peru, Bolivia, Brazil, Argentina, Uruguay. Each Agreement includes a list of products with preferential access. In 1996 Cuba will begin negotiations with MERCOSUR countries to substitute for Bilateral Agreements with the member countries.

73. In the case of CARICOM, Cuba has proposed a Bilateral Agreement, and discussions are still underway. However, a Declaration of Intent has been signed with Trinidad and Tobago with the objective of negotiating a Bilateral Agreement. Concerning trade linkages with the Caribbean, Cuban officials indicated that there were several constraints to Cuba- Caribbean linkages including transportation, information gaps and the absence of agreements with the Caribbean. As one Cuban official indicated, entrepreneurs find it easier to buy from Mexico because there is an agreement which means non-payment of tax. Bilateral Agreements also are proposed with the Dominican Republic, Haiti, Venezuela, Mexico, Colombia. The Cuban Chamber of Commerce, with some 250 members, is planning a big trade fair in 1996. This business organisation is interested in collaborative agreements with other Caribbean countries in terms of multi- tourist destination visits but there has not been much response from the region.

³⁶ See Associated Press Report by Maggie Jackson headlined: " Havana ho? US companies look toward Cuba despite embargo. Trinidad Guardian Nov.29,1995:10.

³⁷ See David Jessop: "Anxiety as Europe eyes Cuba's open window. Trinidad and Tobago" Sunday Express. Nov. 19, 1995.

Chapter V

CONCLUSION AND RECOMMENDATIONS

74. The fundamental challenges facing IDCs in general have two main facets: to time-manage the eventual negative effects of the changes in the world trade system, and to optimize opportunities resulting from these same changes. The capacity of the Caribbean IDCs to respond effectively to these challenges has been highlighted in the report. The following observations give a brief account of some conclusions and recommendations.

A. Salient features of islandness

75. Perhaps the greatest strength of the Caribbean is the resilience of its people. The Caribbean societies possess a tremendous capacity to endure and adapt. A second strength is the advantage of smallness. With a total population of some 32 million people, the physical resources required for basic survival are not as overwhelming as in, say, Sub-Saharan Africa or continental Asia (China, India, Bangladesh). Third, there is the proximity to large, affluent markets in North America (United States, Canada). This is unlike some other islands and countries which are remote from major consumer markets.

76. Caribbean economies, however, face three main types of threats. First, there is the threat of natural disasters, particular exacerbated by climate changes. Second, there is the spectre of the collapse of preferential markets which has already been detailed above. Third, there is the threat resulting from globalization. Finally, the danger of breaching the limits of eco-cultural carrying capacity. All of these factors have trade-related implications.

77. Island economies are highly susceptible to natural hazards particularly hurricanes. The Caribbean is no exception. It is estimated that between 1722 and 1990, 43,000 lives were lost from Hurricanes, 30,000 from volcanoes and 16,000 from earthquakes.³⁸ Now, many of the current scientific predictions suggest that the global climate change increases the probability of a greater frequency and intensity of natural disasters (especially hurricanes).

78. A UNEP background paper for the April 1994 Small Island Developing States (SIDS) conference warned that: "The wider Caribbean region with its many island based economies such as fishing and/or tourism is particularly vulnerable to the physical changes associated with climate change and sea level rise." The year 1995, for example, was particularly bad for many of the Eastern Caribbean islands in terms of hurricanes. Damage to the islands of the OECS, French, British, Dutch and American dependent territories including Puerto Rico, is estimated at US\$ 5 billion in 1995, with 25 deaths and many more injured or rendered homeless.³⁹ Such damage impacts directly on agricultural and tourist export capabilities.

79. Island economies, including those in the Caribbean, are marked by fragile ecological systems, which can easily be affected by socio-economic activities. Small islands can be considered, from an environmental impact perspective, to be comprised solely of coastal zones. In other words, there is an immediate, direct impact of terrestrial-based socio-economic activities on the marine environment. Even tourism can affect a pristine environment and threaten sustainability.

80. The very fact of "islandness" creates a mentality of insularity- not so much vis-a-vis the rest of the world, but among neighbouring islands and

³⁸ See Table 2(ii) in Pantin. D.A. The Economics of Sustainable Development in Small Caribbean Islands. The University of West Indies: Centre for Environment and Development, Jamaica, and Economics Dept. Trinidad. April, 1994. 18-20.

³⁹ Ricky Singh, The Barbados Advocate. Dec. 28, 1995: 14.

countries. Islandness leads individual countries to fail to adequately share notes and experiences and to take common action in dealing with the rest of the world. Another set of realities, flowing from small islandness in particular, is that of diseconomies of scale in production, marketing and the provision of social and physical infrastructure and public administration. A third category of weaknesses flows from the openness of the economy and society. These increase the probability of a high external trade dependence and a vulnerability to exogenous shocks, together with national security problems.

B. Policy agenda

- Emerging export market opportunities

81. More focused research into dynamic "emerging" economic activities such as eco-tourism, "green" products, information services (particularly in high-level skill activities), and cultural services (music, film and festival/heritage) should be promoted. This should increase the knowledge base toward public policy measures with a view to augmenting entrepreneurial efforts.

- Support to existing export industries

82. There are a number of services which can be provided at reasonable cost to support significant export industries (tourism, minerals, agriculture etc.) based on locally available inputs. This includes the repair maintenance and sheltering of ships and other marine vessels. The growth of such service industry should be accorded high priority.

- Planning for meeting new world trade challenges

83. A number of product-specific agreements under NAFTA and EEC are now in place which are of vital importance to IDCs in the Caribbean, particularly the Banana and Sugar protocols. It is essential to work out alternative strategies for responding to new requirements which will emerge when such protocols are reviewed. This equally applies to the various provisions of WTO, whose interpretation and implementation requires enhanced technical know-how.

84. In general there is limited knowledge, both in public and private sector, about the implications of the UR, NAFTA, EEC/Lomé and FTAA. It is therefore proposed to enhance the dissemination of relevant knowledge through various media of communication as well as workshops and conferences. Unless Caribbean peoples are sensitized to changes in the world trading environment, the capacity to respond and seize opportunities will remain limited. Donor countries should stand ready to provide the required technical assistance. Regional cooperation initiatives in this area should also be vigorously promoted.