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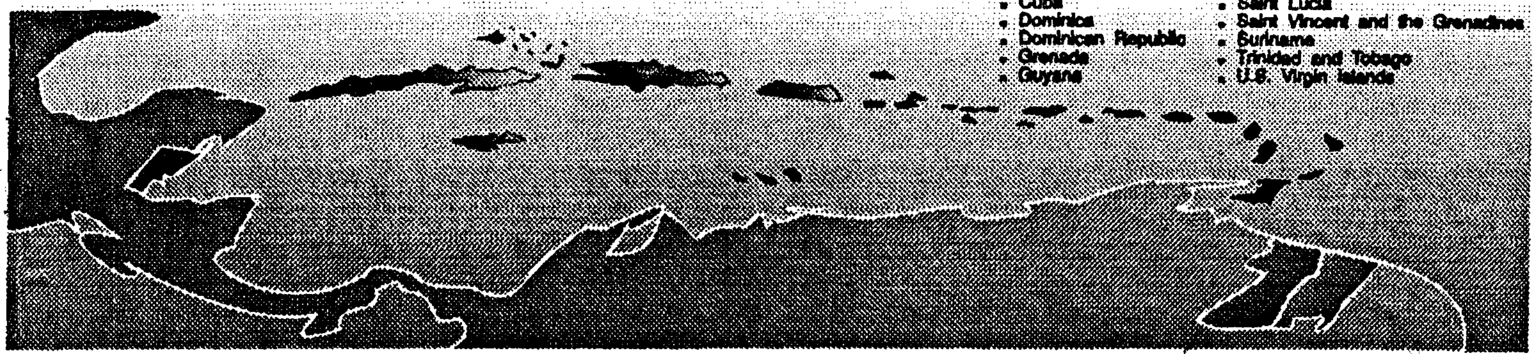

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THE CARIBBEAN AND THE
NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA)

UNITED NATIONS
ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN
Subregional Headquarters for the Caribbean
CARIBBEAN DEVELOPMENT AND COOPERATION COMMITTEE

Abstract

The terms of the North American Free Trade Agreement (NAFTA) are examined in the light of their implications for, and possible impacts on, member countries of the Caribbean Development and Cooperation Committee (CDCC), most of which are also beneficiary countries under the Caribbean Basin Initiative (CBI) of the United States of America. Some attention is devoted to an analysis of the motivations of the three NAFTA members in order to better inform the response which Caribbean governments might adopt towards this new initiative.

The implications for the CARICOM members of the CDCC are reviewed in the light of attempts to deepen their integration movement and to agree upon Common External Tariff (CET) levels. Their commitments to other trade and investment arrangements under the Lomé Convention and CARIBCAN are taken into account. The interests of non-CARICOM members of the CDCC also receive attention.

Possible CDCC responses to NAFTA are discussed against the backdrop of global trends towards liberalization and regionalism in trade and investment arrangements. The alternatives presented for the small economies of the Caribbean are circumscribed by the need to restructure production processes in order to take advantage of hemispheric trends, and the need for sufficient time and support to achieve this objective.

It is suggested that there might be a role for the CDCC in helping to inform the adjustment process in the Caribbean, and to inform the Caribbean's response to NAFTA.

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BACKGROUND

The prevailing trading arrangements between Caribbean countries and the countries of North America, under the Caribbean Basin Initiative (CBI) and the Canada/CARICOM Trade and Economic Cooperation Agreement (CARIBCAN), are likely to be affected by new hemispheric developments such as the North American Free Trade Agreement (NAFTA) and the Enterprise for the Americas Initiative. (EAI).

The notion of a NAFTA between the United States, Mexico and Canada, preceded President Bush's EAI which was announced in June 1991. The EAI encompasses trade, investment and debt relief measures for the countries of Latin America and the Caribbean. Although the debt relief measures have been widely publicized, it is the trade aspect of the EAI that has been earmarked by the Bush Administration for priority attention and action. Indeed, the United States Trade Representative (USTR) has made it clear that NAFTA should be viewed as a guide-post in the journey to establish a hemispheric Free Trade Area (FTA), the long-term objective of the EAI.[1]

NAFTA is perceived by the Americans as the basic agreement, which will provide for the subsequent accession of other interested and eligible countries within the hemisphere. As a preliminary step towards the EAI, the United States has entered into framework agreements with most of the countries of Central and South America and the Caribbean. The CARICOM members of the Caribbean Development and Cooperation Committee (CDCC) have entered into a joint framework agreement with the United States which provides for the establishment of a United States/CARICOM Joint Council, and for continuing dialogue on trade and investment matters.

In the cases of Canada and Mexico these framework agreements were precursors to full FTA negotiations. The United States and Canada signed an early version of a "framework agreement" in 1988. It took four years from the negotiation of a framework agreement between the United States and Mexico before talks commenced towards a free trade agreement between the two countries. However, the United States Administration has made clear that the negotiation of a trade and investment framework agreement with a country or group

[1] Trade, The Americas and the World: Address by Ambassador Carla A. Hills, United States Trade Representative before the Organization of American States (OAS) Conference of Trade Ministers, Washington D.C., 29 October 1991.

of countries does not imply that the United States will be proposing free trade negotiations with such countries immediately. We are also told that future free trade programmes will be designed to facilitate the eventual combination of bilateral and plurilateral FTAs to create a larger, hemispheric barrier-free market.

The conclusion of the NAFTA negotiations has led to some uncertainty and concern in the Caribbean subregion, particularly regarding the Caribbean's existing trade preferences under the CBI, CARIBCAN, and the Lomé Convention and the subregion's competitive position vis-à-vis Mexico in the market of the United States. It has also led to discussion regarding the internal economic integration arrangements of the Caribbean Common Market.

NAFTA in brief

The first step towards the creation of a North American Free Trade Area was initiated with the signing towards the end of 1987, of the Canada/United States Free Trade Agreement (CUSTA). The agreement took effect in January 1989, and called for the gradual elimination of all tariffs on their bilateral trade within 10 years. CUSTA is not restricted to trade issues, and is perceived by both countries as a means of regulating and formalizing the close economic ties between them. The agreement covers a wide range of areas, such as the opening up of more government contracts to competitive bidding, establishing a legal framework for both commercial operations and the resolution of government disputes, and making investment restrictions more transparent.

The essential difference between NAFTA and the CBI for purposes of the member countries of the CDCC is that, whereas the CBI provides for non-reciprocal duty-free access for the most of the products of CBI-eligible countries to the United States market, NAFTA assumes full reciprocity. Of those products which are exempted from CBI tariff treatment, sugar is under quota, and garments are subject to preferential access arrangements. Under these arrangements (TSUS item 807A) the CBI-beneficiary countries are allowed to increase their levels of exports to the United States significantly faster than non-CBI members[2].

The United States/Mexico negotiations were initiated by the Mexicans in June 1990. They were expanded to include Canada in February 1991. In August 1992, there was a formal announcement of the conclusion of negotiations for NAFTA, which seeks broad

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2 The countries that have entered into a bilateral textile agreement under the programme include Costa Rica, the Dominican Republic, Haiti, Jamaica, and Trinidad and Tobago.

agreement to eliminate restrictions on the flow of goods, services and investments among the three countries. Specific goals of the FTA are:

(a) Reduction of tariffs to zero over a period of years which could reach 20, (the period is 10 years in the United States/Canada FTA);

(b) Elimination of barriers to investment and ensuring an open investment climate;

(c) Specific attention to environmental concerns. NAFTA is significant in that it marks the first time in the history of United States trade policy that environmental concerns have been directly addressed in a comprehensive trade agreement; and

(d) Full protection of intellectual property rights (patents, copyrights and trademarks).

Immediate action agendas include these items as priority areas for discussion and negotiation among trade representatives of the three countries, as a means of preparing the stage for an eventual full FTA.

A North American FTA, ranging from the "Yukon to the Yucatan", would constitute the world's largest market with an annual production of more than $6 trillion and with a population of approximately 370 million. Canada and Mexico are respectively the first and third largest trading partners of the United States, and both countries already depend heavily on the United States market, which takes 70 per cent and 63 per cent, respectively, of Canadian and Mexican exports. The United States is much less dependent on the Canadian and Mexican markets. United States exports to Canada represent only 22 per cent of all exports and exports to Mexico represent only 7 per cent of American exports. Trade between Mexico and Canada is quite small, both absolutely and relative to the total exports of each country. The value of United States trade with Mexico and Canada in 1990 amounted to $58.6 billion and $175.3 billion, respectively. Canada/Mexico trade amounted to only $2.2 billion in 1990.

The United States Administration sees the FTA as leading to expanded trade with Mexico, with the potential for creating high-paying jobs for United States workers, especially since it would give United States producers (exporters) unrestricted access to a Mexican market of 86 million people, which may reach 100 million by the year 2000. Mexico already purchases more than two-thirds of its imports from the United States. In the area of investment, Mexico is already of great importance to the United States, as the United States accounts for 65 per cent ($25 billion) of foreign direct investment in Mexico.

Rationale for NAFTA: The American perspective

Recent economic developments in the United States are well known. The economic situation in that country has been characterized by large budgetary and trade deficits, and rising external debt. The budgetary deficit in 1991 was $280.6 billion, the current account deficit $8.66 billion and the trade deficit $73.6 billion. Total debt was $2851.6 billion and external debt $457.7 billion. Despite the fact that the United States is the world's largest exporter, it is now heavily dependent on inflows of foreign capital from the rest of the world. At the same time, it has been losing its technological advantage to other industrialized competitors, in some highly visible sectors such as automobiles and electronic goods. All of this is taking place in a new global context at the end of the cold war and the dismantling of the Eastern Bloc, such that politico-ideological and military competition among the major powers is being rapidly replaced by increased economic competition.

These global rearrangements may appear to point to the eventual emergence of a European super-bloc, in much the same way as it is probable that Japan and the dynamic economies of East Asia will configure a closer economic partnership among themselves. Add to these scenarios, two important considerations. First, progress in the Uruguay Round of multilateral trade negotiations under the General Agreement on Tariffs and Trade (GATT) has been painfully slow, and failure of these negotiations can have significant negative consequences for world trade, and for United States trade. Secondly, the economic downturn in Latin America and the Caribbean has had a negative impact on the United States economy, particularly as a result of the dramatic reduction of the region's imports from the United States. Estimates by the Inter-American Development Bank (IDB) put Latin America and the Caribbean's loss of purchasing power during the 1980s at US$500 billion. Estimates of the consequential reduction in United States' exports to the region in the 1980s range between US$50 billion and $130 billion. This may have caused a loss of more than a million jobs in the United States[3]. These statistics underline the extent of the interdependence between the United States and the Latin American and Caribbean region.

Given this situation and in the light of developments in other parts of the world, the United States may have found itself induced to seek a consolidation of trade and investment arrangements within the hemisphere. A trade and investment grouping embracing the countries of North, Central and South America and the Caribbean, via the EAI, with NAFTA as its core, would constitute an important hemispheric market of over 700 million people.

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[3] SELA. SP/CL/XVI.O/DT No. 19. XVI Regular Meeting of the Latin American Council - 3-7 September 1990.

The Canadian perspective

The Canadian decision to participate in the NAFTA negotiations was motivated primarily by its desire to avoid a dilution of its preferences in the United States market under CUSTA, and to a lesser extent, by its interest in gaining the same access to the Mexican market as the United States would enjoy. Canada seems to be particularly concerned to safeguard its position under CUSTA in the automobile and energy sectors, and to ensure that provisions exempting Canadian cultural industries from trade reforms remain intact.

Canada has had a long-standing trade and economic cooperation relationship with a number of the countries of the subregion. The CARIBCAN agreement cements Canada's traditional links with these countries by granting duty-free access to its market for a wide range of products. The Canadians recognize that Caribbean goods will face additional competition under NAFTA, and have urged the Caribbean countries to make wise use of the transition period before the NAFTA becomes operational: "There is a 10 to 15-year phase-in period for tariff reductions which is a lot of time to adjust, provided those years are used creatively and not just to postpone the inevitable[4]".

The Mexican perspective

NAFTA formalizes an already close economic relationship between the United States and Mexico. The United States is Mexico's largest creditor, investor and trading partner. Almost 80 per cent of Mexico's non-oil exports are sold to the United States, with a considerable share of these produced by Mexican subsidiaries for their United States multinational parent companies, to be incorporated into products assembled in the United States[5]. The challenge was to find a cooperative framework which would allow the two countries to move beyond the constraints of their past relationship towards a mutually beneficial trade and investment association. In light of the existing Canada/United States Free Trade Agreement, this meant developing a trilateral free trade area linking these two countries with Mexico.

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[4] Her Excellency Jennifer McQueen, Canadian High Commissioner to Jamaica at a seminar "Implications and Opportunities of NAFTA," 21 August 1992 in Kingston. Report carried in the Daily Gleaner of 23 August 1992.

[5] Alan Stoga "Beyond Co-existence: The United States and Mexico". Mexico Monograph Series - Strategic Sectors in Mexican - United States Free Trade.

In the 1980s, a concerted effort was made to reorient the Mexican economy towards international competition and a more liberalized trade regime. At the start of the 1980s virtually all imports were subject to non-tariff barriers. Today less than 20 per cent of imports are covered by Quantitative Restrictions (QRs). Tariffs were also reduced significantly. More than half of all imports now enter the country duty-free, and the average tariff is under 10 per cent. The decision to become a signatory to the GATT was an important indication of the intended permanence of the new policy orientation; and the signing of NAFTA, a formal acknowledgement of the reality of heavy dependence on the United States economy for Mexican growth.

Foreign investment is perceived by both the Mexicans and the Americans as "the oxygen of Mexico's economic strategy". Many view the proposed free trade agreement as intended primarily to stimulate foreign investment in Mexico. New investment guidelines introduced in 1989, have imbued Mexican investment regulations with greater transparency and predictability and created a more welcoming investment climate. Between 1986 and 1991, United States business contacts in Mexico increased considerably and the United States was able to increase its exports to Mexico from $12.4 billion to $33.3 billion, and reduce its trade deficit with Mexico from $4.9 billion to $1.8 billion. The United States has been able to increase its exports to Mexico twice as fast as to the rest of the world. The two countries recognize that a FTA is mutually advantageous to their countries in both trade and investment.

NAFTA is yet to be ratified by the governments of the three countries. With the advent of a new administration in the United States in January 1993, it is possible that modifications may be made to the text and scope of the agreement, and to the timing of its implementation. It appears likely that the new United States Administration will proceed with NAFTA, even if in a modified form.

POSSIBLE IMPLICATIONS OF NAFTA FOR CARIBBEAN COUNTRIES

General observations

NAFTA has been greeted with concern by elements in both the public and private sectors of Caribbean countries. Adding to Caribbean disquiet is the message that "the Administration does not support including unilateral preferences for third world countries in the NAFTA agreement"[6]. This may be interpreted to mean that CBI preferences will not be accommodated under NAFTA. In any event, the United States Administration may not consider Caribbean

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[6] White House Document, "NAFTA and the Caribbean Basin Initiative (CBI) countries", 7 August 1992.

countries to be ready for NAFTA. The Assistant United States Trade Representative for Latin America, the Caribbean and Africa said recently: "In our view, no country other than Chile, is now ready to begin free trade negotiations with the United States"[7]. He stressed that Congress would have to be convinced that trade negotiations maximized United States benefits: "The assessment of the prospective benefits would take into account a variety of factors; the size of the market would be a consideration." Caribbean pressure to obtain from NAFTA the same access to United States markets as Mexico without reciprocity was dismissed as "unrealistic".

The structure of trade in the Caribbean subregion suggests that the impact of NAFTA on the Caribbean could be substantial. Approximately 50 per cent to 70 per cent of all exports from the region go to the three NAFTA countries. In the case of Jamaica, for example, approximately 60 per cent of the export trade is transacted with the United States, Canada and Mexico[8]. There is concern in the region that NAFTA could result in trade and investment diversion from the Caribbean countries to Mexico.

NAFTA could put CBI countries at a competitive disadvantage in the United States market as it stipulates the removal of tariff and quota protection on certain goods which Caribbean countries currently export to the United States on favourable access terms. Mexico, which already has cheap labour and energy, lower transportation costs and considerable potential for economies of scale, would be provided under NAFTA with an enhanced opportunity of attracting investment from North America. It is not inconceivable that among those investors would be some who are attracted by Mexico's supposed lower environmental standards; or some who might have been interested in the Caribbean as an offshore investment location. The United States International Trade Commission's (ITC) report entitled, "Potential effects of a North

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[7] Myles Freshette, Assistant USTR to the West Indian Commission and the Caribbean American Press, Washington D.C. Statement carried in the Daily Gleaner, 15 September 1992.

[8] "The Implications of the NAFTA for Jamaica and the CBI Region: A Policy Proposal" - statement by H.E. Richard Bernal, Jamaican Ambassador to the United States. Statement before the House Ways and Means Subcommittee on NAFTA Hearing, 22 September 1992.

American Free Trade Agreement on apparel investments in (CBI) countries" concludes: "A NAFTA will introduce incentives that will tend to favour apparel investment shifts away from the (CBI) countries to Mexico"[9].

There may be a real danger of closure or contraction of Caribbean industries such as apparel and rum, which are very important to a number of Caribbean economies, and which have been dependent on favourable access conditions in the United States market.

NAFTA, CBI, CARIBCAN and Caribbean countries

In one important respect, the interests of the majority of CDCC countries are quite distinct from those of other developing countries. Most of the exports of CDCC member countries fall under special preferential trading arrangements under the CBI, CARIBCAN and the Lomé Convention.

In respect of the products for which the 24 countries eligible under CBI enjoy duty-free access, Mexico would be brought on to the same footing. For the CARICOM members of the CDCC, the same situation holds for CARIBCAN[10]. Mexico's added attractiveness from the trade and investment perspectives would be with respect to the products currently excluded from CBI and CARIBCAN, or which face non-tariff barriers (NTBs). The United States is already a low tariff country, and the advantages that the NAFTA partners may enjoy would derive in part from the elimination of non-tariff barriers. NAFTA could adversely affect CBI and CARIBCAN countries by reducing the margin of preference which these countries currently enjoy in relation to Mexico.

Implementation of NAFTA would increase the relative advantage of Mexico over the CBI countries in several ways:

(a) As long as Mexico can export to the United States market duty-free, the same products as the CBI beneficiary countries, the CBI advantage would be lost;

(b) Most non-sensitive products from both Mexico and the CBI countries now enter the United States duty-free under the Generalized System of Preferences (GSP) whether or not they are eligible under the CBI. Although there is no advantage either way,

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[9] United States International Trade Commission: "Potential Effects of a North American Free Trade Agreement on Apparel Investments in CBERA countries."

[10] CARICOM. Preliminary Note on CARICOM's Strategy towards NAFTA: HGC 92/13/4.

NAFTA would give Mexico the advantage in that its duty-free access would be made permanent through a trilaterally negotiated contractual agreement offering secure trade and investment opportunities; as opposed to the CBI which is a non-reciprocal, unilateral arrangement. Investors may prefer a binding treaty to the conferral of a privilege, on which to form the basis of an investment decision;

(c) CARIBCAN has also been legislated by Canada without any specified duration. The Canadians confirmed during the last meeting of the Joint Trade and Economic Commission (JTEC), that CARIBCAN's preference to CARICOM members of the CDCC was of indefinite duration. However, as with the CBI, investors may prefer to base investment decisions on a binding treaty;

(d) Products which remain dutiable under the CBI, principally apparel, footwear and some leather goods, are expected to be granted gradually phased-in duty reductions under NAFTA. This would provide Mexico with an added advantage in the attraction of investment, an advantage which would increase over time. The combined effect of more favourable duty treatment for Mexican exports and eroding quota advantages for CBI exports, could cause the CBI countries to experience disinvestment in the critical apparel sector. This would be a major blow for them since many CBI countries, relying in part on quota exemptions, have enjoyed great success in attracting firms in these industries, despite their non-duty-free status in the American market; and these firms have contributed significantly to employment generation, particularly among women.

Impact of NAFTA on selected sectors of Caribbean economies

NAFTA could potentially have implications for the agriculture and manufacturing sectors of member countries of the CDCC, as well as for the services sectors.

The exports of the Caribbean are primarily agricultural or agriculture-based and minerals, such as bauxite, alumina or petroleum (see Table I). Traditional agricultural exports, such as sugar and bananas, and agriculture-based commodities such as rum are among the principal foreign exchange earners. Efforts to improve the manufacturing base have been successful only in terms of the establishment of low value-added, light manufacturing for the regional market under high tariff walls, and that taking place in export processing zones or under similar conditions. For the majority of CDCC countries, the United States and Canada are their largest export markets. Notable exceptions to this are the four Windward Islands of Dominica, Grenada, Saint Lucia and Saint Vincent and the Grenadines, which depend on preferential market conditions in Europe for the export of their bananas; and Cuba for which country Eastern Europe was the dominant export destination throughout the 1980s (see Table II).

Table I

EXPORTS OF CDCC COUNTRIES BY MAIN CATEGORIES OF EXPORTS (PERCENTAGE)

Country	Year	Total Value US$M	All Food Items	Agric. raw materials	Fuels	Ores & metals	Manufact. goods	Of which: Chemical Products	Of which: Other Manuf. goods	Of which: Machinery and equip.	Unallocated
Bahamas	1980	5009.4	0.4	0.1	96.8	0.2	2.5	2.0	0.4	0.1	...
	1985	2728.4	1.4	0.1	88.4	0.5	9.6	8.7	0.3	0.6	...
	1986	2702.0	1.4	0.1	85.2	0.7	12.7	10.4	0.6	1.6	...
	1987	2544.5	2.2	0.1	85.1	0.6	11.3	10.4	0.4	0.6	0.7
Barbados	1980	149.5	47.0	0.1	0.2	0.2	52.5	7.1	29.9	15.5	...
	1985	214.9	15.7	0.2	...	0.1	83.8	1.2	11.9	70.7	0.2
	1986	209.1	18.9	0.1	...	0.5	80.3	4.5	16.7	59.1	0.2
	1987	156.0	26.9	0.8	18.6	0.4	52.1	10.6	20.0	21.5	1.2
	1988	176.1	26.9	0.7	16.0	0.5	53.4	11.9	23.5	18.1	2.6
Belize	1980	82.5	79.4	2.8	...	...	17.6	0.4	17.2	...	0.1
	1985	64.4	73.9	1.2	...	...	24.9	0.7	24.2	...	...
	1986	74.0	79.9	1.6	...	...	18.5	0.1	18.4	...	...
	1987	99.4	69.3	12.3	...	...	17.7	0.4	17.2	0.1	0.7
	1988	119.7	76.9	3.6	...	0.2	18.0	0.6	16.6	0.8	1.3
Cuba	1980	5540.8	89.3	0.3	...	4.6	0.3	...	0.3	...	5.4
	1985	6484.5	82.3	0.1	10.4	5.6	1.7	0.3	1.0	0.4	...
	1986	6298.0	84.3	0.1	8.6	5.4	1.6	0.3	0.9	0.4	...
	1987	5401.0	82.4	0.1	9.9	5.9	1.6	0.3	1.0	0.3	...
Dominica	1980	9.3	45.6	0.1	...	...	54.3	53.1	1.2	...	...
	1985	28.4	59.9	0.4	...	...	39.8	28.5	6.3	4.9	...
	1988	56.0	68.7	0.6	...	0.3	29.9	16.9	5.1	7.9	0.5
	1989	43.6	65.8	0.7	...	...	33.5	27.7	5.7	0.1	...
Dom.Rep.	1980	703.9	73.2	0.2	...	3.1	23.6	5.9	17.0	0.7	
	1985	738.5	42.7	0.5	...	1.1	42.2	1.2	38.7	2.3	13.6
	1986	718.0	39.8	0.5	...	0.9	45.4	1.0	42.0	2.4	13.4
Grenada	1980	16.9	92.2	...	...		7.8	...	7.7	...	...
	1985	21.8	95.5	...	...		4.5	1.0	3.5	...	...
	1986	26.6	97.0	...	...		2.9	...	2.9	...	...
	1987	31.5	83.5	0.3	...		16.2	...	12.1	4.1	...
	1988	27.9	73.5	0.4	...	0.4	25.4	1.4	18.6	5.4	0.4
Guyana	1980	388.9	47.6	2.2	...	38.0	11.0	8.2	1.8	1.0	1.2
	1986	218.0	59.1	4.6	...	21.0	12.8	5.2	4.0	3.5	2.6
Haiti	1985	174.0	19.2	1.1	...	1.0	74.2	1.6	53.6	19.0	4.5
	1986	170.0	20.9	1.1	...	1.2	72.8	1.7	54.2	16.9	4.1
Jamaica	1980	942.4	13.7	0.3	1.9	21.4	62.7	58.6	3.4	0.6	...
	1985	535.1	26.1	0.4	5.2	15.0	53.2	42.8	9.9	0.5	...
	1986	567.2	28.0	0.6	3.1	16.4	51.9	39.0	12.5	0.4	...
	1987	692.3	26.6	0.7	2.0	16.6	54.1	35.4	18.2	0.4	...
	1988	811.6	25.4	0.5	2.3	13.4	58.4	41.0	16.8	0.6	...
Neth. Ant.	1980	5157.6	0.1		98.4	0.1	1.3	1.1	0.1	0.1	...
	1985	1667.0	0.2	0.1	97.2	0.5	1.8	1.0	0.4	0.4	...
	1986	839.0	0.4	0.2	96.8	0.2	2.5	1.4	0.7	0.4	...
St Kitts	1985	24.0	23.3	...	17.5	0.8	49.2	1.7	32.9	14.6	9.2
	1986	31.0	29.4	...	4.5	0.6	57.7	3.2	37.1	17.4	7.7
	1987	31.1	42.8	0.3	5.1	0.6	46.6	1.0	32.8	12.9	4.5
St Lucia	1980	33.7	57.0	0.7	...	...	42.3	1.2	27.6	13.5	...
	1985	53.0	67.5	0.6	...	...	31.7	1.5	19.2	10.9	0.2
	1986	83.0	74.3	0.7	...	...	24.8	1.1	15.0	8.7	0.2
St Vincent	1980	15.7	84.2	0.2	...	...	14.1	0.3	9.4	4.4	...
	1985	34.0	95.0	...	1.6	...	5.0	0.6	3.8	0.6	...
	1986	39.0	93.8	...	...	...	6.2	0.8	4.6	0.8	...
	1987	39.3	87.5	0.3	...	...	12.2	1.8	6.4	4.1	...
Trinidad/ Tobago	1980	4077.0	2.1	...	93.7	0.1	4.1	2.7	0.9	0.5	0.1
	1985	2160.9	2.1	...	79.1	0.3	18.2	12.8	2.5	2.9	0.2
	1987	1462.4	4.5	...	71.2	0.7	23.4	14.1	7.9	1.4	0.2
	1988	1412.0	6.0	...	60.5	0.6	32.7	20.9	10.4	1.3	0.2
	1989	1578.1	6.0	...	61.0	0.7	31.5	18.3	11.9	1.3	0.2

Source: UNCTAD, Handbook of International Trade and Development Statistics, 1990.

Table II

EXPORTS OF CDCC COUNTRIES BY MAIN DESTINATION

Destination / Country	Year	World in US$m	Developed market economies (%) Total	Europe Total	Europe EEC	USA/ Canada	Japan	Others	East. Eur %	Soc. Asia	Developing countries and territories (%) Total	OPEC	America	Africa	W.Asia	S&SE Asia
Bahamas	1980	50010.0	89.6	21.0	17.0	67.0	0.3	0.1	...	...	11.0	0.3	9.0	0.2	0.3	0.7
	1985	2728.0	97.2	6.0	5.0	89.0	2.0	0.4	...	...	3.0	0.3	1.4	1.2	...	0.1
	1987	2544.0	96.1	4.0	4.0	90.0	2.6	0.2	...	...	4.0	...	2.5	0.9	...	0.1
Barbados	1980	149.5	67.7	20.8	20.3	46.8	...	0.1	...	...	32.0	0.4	31.0	...	...	1.0
	1985	214.9	95.9	10.8	10.6	84.9	0.1	0.1	...	...	3.8	...	3.6	...	...	0.2
	1988	176.1	61.2	22.1	21.7	28.2	0.7	0.1	...	...	31.2	...	31.2	...	...	0.1
Belize	1980	82.5	92.2	30.9	30.8	61.0	0.3	...	...	...	7.8	...	7.7	...	...	0.2
	1985	64.4	93.5	30.0	28.5	63.4	0.1	...	...	...	6.5	0.6	6.4	...	...	...
	1988	119.7	87.5	42.9	42.9	43.9	0.6	...	...	...	12.5	...	12.4	...	...	0.1
Cuba	1980	5540.8	11.9	6.2	4.3	2.9	2.8	...	59.6	3.0	8.3	5.1	...	4.2	3.8	0.3
	1985	6484.5	8.3	6.4	3.1	0.5	1.3	...	86.1	2.9	2.8	0.8	0.7	1.3	0.5	0.3
	1987	5401.0	8.6	6.5	5.2	0.7	1.4	...	86.8	2.0	2.5	0.5	1.1	0.7	0.4	0.2
Dominica	1980	9.3	36.8	36.2	35.8	0.6	...	...	...	...	63.2	...	63.2	...	...	...
	1985	28.4	56.0	50.7	50.7	5.3	...	...	...	...	44.0	...	44.0	...	...	...
	1988	56.0	73.3	68.6	68.6	4.8	...	...	...	...	26.7	...	26.7	...	...	...
	1989	43.6	66.9	59.2	59.2	7.7	...	...	...	...	31.9	...	31.9	...	...	...
Dom Rep	1980	703.9	79.9	14.8	11.5	63.9	1.2	...	0.5	...	19.6	13.0	15.0	3.6	...	...
	1985	738.5	95.7	16.5	11.0	78.3	1.8	...	0.4	...	3.9	0.3	3.7	0.1	...	0.1
	1987	718.0	95.9	11.0	11.0	83.7	1.1	...	0.4	...	3.7	0.3	3.6	0.1	...	...
Grenada	1990	16.9	84.9	78.5	77.2	6.4	...	...	1.0	...	13.9	...	13.8	...	0.1	...
	1985	21.8	61.1	55.8	55.7	5.0	0.2	0.1	1.8	...	37.1	...	36.9	...	0.1	...
	1988	27.9	78.5	66.3	64.2	12.2	...	...	...	...	21.1	...	21.1	...	...	...
Guyana	1980	388.9	73.2	41.5	37.7	27.7	3.4	0.5	1.3	0.3	25.2	6.1	24.4	0.5	...	0.2
	1986	218.0	41.5	22.8	20.4	14.4	4.2	0.7	1.7	...	54.9	7.1	52.5	1.7	...	...
Haiti	1985	174.0	95.3	13.4	12.9	81.2	0.5	0.1	...	...	4.7	0.2	4.0	0.2	0.5	...
	1986	170.0	95.5	17.7	16.4	77.2	0.5	0.1	...	...	4.5	0.2	4.0	0.2	0.4	...
Jamaica	1980	942.4	79.6	38.7	20.6	40.2	0.6	0.1	5.3	...	15.1	2.2	9.6	4.6	0.8	0.7
	1985	535.1	78.1	24.1	21.0	52.5	1.4	0.1	5.6	...	15.0	...	11.7	3.3	...	...
	1988	811.6	86.1	33.5	30.6	51.1	1.1	0.3	4.0	...	9.5	0.1	8.9	0.5	...	0.1
Neth Ant	1980	5157.6	66.4	13.0	11.6	52.2	6.5	0.6	...	...	32.9	4.4	26.2	4.7	0.2	0.9
	1986	1667.0	60.1	12.0	11.3	45.9	0.2	1.0	...	...	39.7	2.0	35.7	3.5	...	0.4
	1986	839.0	46.9	11.0	10.9	34.4	1.3	0.3	...	...	52.8	2.4	48.2	4.3	...	0.2
St Kitts	1986	24.0	75.0	5.0	5.0	70.0	...	...	...	...	25.0	...	26.0	...	...	...
	1987	31.1	76.2	20.9	20.9	54.3	...	...	...	...	24.8	...	24.4	...	...	0.3
St. Lucia	1980	33.7	57.7	33.6	33.5	24.1	...	...	...	...	42.3	0.4	42.2	...	...	0.1
	1985	53.0	49.1	49.1	49.1	...	...	...	...	...	50.9	0.4	50.8	...	...	0.2
	1986	83.0	60.0	60.0	60.0	...	...	...	...	...	40.0	0.4	40.0	...	...	...
St Vincent	1980	15.7	55.5	50.6	50.6	4.9	...	...	...	...	44.5	...	44.5	...	...	...
	1985	34.0	68.8	68.8	68.5	...	...	...	...	...	31.2	...	31.2	...	...	...
	1987	39.3	71.2	71.2	71.0	...	...	...	...	...	27.2	...	22.1	...	...	5.1
Suriname	1980	514.0	80.8	...	...	...	...	...	...	...	14.9	...	14.5	...	...	...
	1985	328.8	78.3	...	...	...	...	...	...	...	21.6	...	19.9	...	...	...
	1986	329.3	82.6	...	...	...	...	...	...	...	17.4	...	17.4	...	...	...
Trinidad/ Tobago	1980	4077.0	73.5	12.8	11.7	60.6	0.1	...	...	...	21.8	0.2	19.1	2.2	0.5	...
	1986	1385.7	82.2	15.2	14.8	65.9	1.1	0.1	...	0.2	15.6	0.6	16.0	...	0.1	0.5
	1989	1578.1	67.8	9.6	9.1	57.0	0.7	0.4	...	...	29.1	2.2	27.4	0.7	0.2	0.9

Source: UNCTAD Handbook of International Trade and Development Statistics, 1990.
IMF Direction of Trade Statistics Yearbook; various editions and
UNCTAD Handbook of International Trade and Development Statistics 1990.

The major CDCC exports to Canada and the United States are rum and alcoholic beverages, textile and apparel products, agricultural produce such as bananas, mangoes, pineapples, coffee, cocoa, tropical woods, rice, tobacco, coconut, spices and cut flowers; sugar, mineral and manufactured commodities like aluminium and electronics software. It is feared that NAFTA may have the effect of undermining the competitive position of these commodities in the United States market.

In the case of rum and alcoholic beverages, Mexico's large capacity poses a threat to the large rum producers of the Caribbean, such as Jamaica, Puerto Rico and the United States Virgin Islands, depending on whether or not special access arrangements for these products are agreed. Successful rum production requires large amounts of molasses and petroleum. In Mexico, these resources are readily available, whereas in the Caribbean, these two major inputs are imported. As a result, the rum industry in the Caribbean could be at a significant competitive disadvantage compared with Mexico, if rum were accorded duty-free treatment under NAFTA.

CARICOM rums have duty-free access to the Canadian market, but are subject to bottling and blending requirements, and to marketing arrangements stipulated by the Provincial Liquor Boards in Canada. Under CUSTA these restrictions do not apply to United States exports to Canada. If under NAFTA the Canada/United States free trade provisions were to be extended to Mexico, the Caribbean's rum competitiveness would be diminished. They are likely to be unable to compete with Mexico which has vast rum producing capacity; (as far back as 1981, it was producing 136 million litres, in comparison with a major Caribbean rum producer, Jamaica, which has a current capacity of 26 million litres of absolute alcohol). The elimination of tariffs and the removal of marketing, bottling and blending restrictions would enhance the competitiveness of Mexican rums. It is to be hoped that, over time, Caribbean rum producers will be able to take advantage of their long-standing tradition of rum manufacture to secure a continued place in the markets of the United States and Canada.

Non-tariff barriers such as quotas and user fees will cease to apply to Mexican exports over a maximum period of 10 years. Some of these barriers will still apply to important exports from CBI States, such as textiles and apparel products, sugar, citrus and agricultural products. Assistance will be granted to Mexico to enable it to achieve United States standards, which will put Mexico in a more favourable position to overcome these NTBs. This may operate to the disadvantage of Caribbean countries such as Barbados, Belize, Dominican Republic, Haiti and Jamaica which have benefited from special access arrangements for most of these products, in particular, garments.

Textile exporters and garment manufacturers, particularly from Asia, have taken advantage of these special access arrangements by investing in garment manufacturing in CBI-beneficiary countries. Expansion of the garment industry has generated significant levels of employment, particularly for females. The probability that the Mexican maquiladoras, (factories operating in export processing zones), may gain at the expense of the Caribbean garment industries, can have troubling negative short to medium-term consequences for employment and investment in a number of Caribbean countries. Mexican garment exports which do not satisfy United States rules of origin will face duties, and will also be subject to quantitative restrictions. CBI goods would be rendered relatively less competitive due to the continuing imposition of duties on them; and their growth potential would be limited because of the elimination of quotas on Mexican exports, which quotas were in existence prior to NAFTA.

NAFTA rules of origin allow the use of inputs from non-NAFTA countries into NAFTA products. Bearing in mind the CBI and CARIBCAN stipulations in this area, this may well have implications for the movement of CBI and CARIBCAN exports across the NAFTA countries. Would it be possible, for example, for a product with United States components from a CBI State to be re-exported to Canada, duty-free? These are among questions to which definite answers may not yet be available.

Agricultural products from Mexico are produced on a much larger scale than is possible in most of the CDCC member countries. In 1990, Mexico exported to Canada alone C$104 million worth of these products as against C$4.8 million of duty-free produce from CARICOM members of the CDCC. Mexico, is the second largest supplier of agricultural produce to the United States. Forty per cent of agricultural exports to the United States already enter duty-free, and the remainder of products are dutiable at a weighted average of 7 per cent ad valorem. Mexican farmers can supply the United States market with products similar to those grown in CDCC countries at a lower cost than produce, such as winter vegetables, grown in the United States itself. When accorded duty-free access under NAFTA, given the larger availability of arable land, and access to low-cost domestically produced fertilizers, pesticides and other agricultural inputs, a massive increase in agricultural exports to the United States and Canada can be anticipated.

According to the United States International Trade Commission (ITC), NAFTA would "affect significantly the level of US trade with Mexico in agricultural products." It could increase United States imports of citrus fruit and winter vegetable from Mexico considerably, agricultural commodities which are now exported to the United States market from Caribbean countries. Mexican exports to the United States in these commodities have already doubled during the 1980s.

Agricultural products from Mexico, which are deemed to be sensitive, will enjoy improved access to the United States market, as tariffs or quotas may be applied in Mexico's favour. Exports from third countries which exceed these quotas will be dutiable. This may place some agricultural exports from CDCC countries at a disadvantage. In the case of sugar, the United States has made allowance for the full liberalization of Mexican exports. This will favour Mexico's large sugar production potential and simultaneously reduce quotas on Caribbean Basin sugar exports to the United States. NAFTA countries will be permitted to impose subsidies in cases where they deem that injury has been caused by third country imports. On this basis, they will be able to set subsidy levels compatible with effective levels of competition for their NAFTA products to the detriment of sugar exporters such as Barbados, Belize, Dominican Republic, Guyana, Haiti, Jamaica, Saint Kitts and Nevis and Trinidad and Tobago.

Regarding the minerals sector, Canada has indicated that NAFTA will facilitate economic complementation whereby Mexico's considerable pool of mineral resources will be developed and refined using Canadian expertise. It is unclear at this stage how this potentially beneficial linkage among the NAFTA partners will affect investments in, and exports of, bauxite, alumina and aluminium from the Dominican Republic, Guyana, Jamaica and Suriname.

In the area of services, NAFTA will remove investment restrictions and protect intellectual property rights as between its members. The United States high technology and entertainment producers could realize substantial gains for their patents, copyrights and trademarks under NAFTA which will favour Mexico over CDCC countries in investment in these sectors. In addition to attractive provisions for investment in Mexico, United States and Canadian companies may enjoy full ownership in Mexican enterprises. Improved access to the Mexican telecommunications sector (including data processing) under NAFTA by the United States and Canada will increase trade contacts and create greater efficiency than exists at present. There could possibly be an increase in United States and Canadian tourist visitors to Mexico, as a spinoff from a closer trade and economic relationship among the three countries, and also possibly some diversion of tourist traffic from the Caribbean to Mexico.

Many CDCC countries have investment restrictions in their telecommunications sectors, thereby limiting foreign investments which might otherwise assist in enhancing technological efficiency. Three member countries of the CDCC, Cuba, Jamaica and Trinidad and Tobago are parties to the Framework for Trade in Services proposed by SELA[11]. While these countries agree with most-favoured nation treatment for services generally, they have always resisted national treatment. They have consistently derogated from reciprocity in order to facilitate the development of their national services sectors. Now that Mexico is presenting an irresistible invitation to investors in North America in telecommunications, banking, insurance and other services, CDCC countries are not in a position to match it, given their national stances on investment in this sector. If they wish to offer a competitive services climate, they must reconsider their approach to this sector, and move to open it to foreign investors.

[11] Other parties to this agreement are Brazil, Chile, Colombia, Cuba, Honduras, Nicaragua, Mexico, Peru and Uruguay.

NAFTA provides for the establishment of an efficient land transportation system among the NAFTA States. This improved infrastructure will further project Mexico as an ideal investment location, by providing a distinct cost advantage for Mexican exports. The only means of transport available to CDCC countries are maritime and air transport facilities which are more costly than land transport. In addition, a United States moratorium on grants to truck and bus operation authorities will be amended to permit complete access for Mexican charter and tour bus operators to its cross border market. In this context, low cost tourism packages between the United States and Mexico could quite possibly increase, thus possibly diverting United States tourists away from Caribbean destinations.

NAFTA AND CARICOM REGIONAL ARRANGEMENTS

In their attempt to deepen the integration movement, the member States of the Common Market of the Caribbean Community agreed in July 1990 to put into effect a new CARICOM Common External Tariff (CET) and revised Rules of Origin for purposes of trade within the Common Market.

Under this CET structure, member States agreed not to exempt or reduce tariffs on specified commodities, the rationale being to create opportunity for production of, and trade in, these commodities within the Common Market by subjecting them to common regional tariff rates. This tariff structure provided for a significant reduction of the rate of duty to 45 per cent at the highest level.

The revised Rules of Origin were intended to promote the utilization by manufacturers in the region of material or other production inputs produced by regional enterprises in the manufacture of final goods to be traded within the Common Market. Other origin rules changes were aimed at increasing local and regional value-added in the processing operations performed by regional manufacturers.

In addition to regionally agreed rates, national regulations had the effect of increasing the protection accorded to regional production. A number of the CARICOM States also applied additional fiscal charges, which had the effect of raising the average tariff from 20 per cent to rates between 35 per cent and 53 per cent[12]. Guyana, the only exception, abolished all such additional trade charges. The Organization of Eastern Caribbean States (OECS)

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[12] World Bank. The Caribbean Common Market - Trade Policies and Regional Integration in the 1990s, March 1990.

countries which base their protection on the East Caribbean Common Market (ECCM) tariff, adhered to it fairly closely, with only comparatively small additional charges, except for Grenada, which imposed relatively high additional trade charges. These surcharges were product-specific. Overall, however, it appeared that protection was higher for manufacturing than for agriculture.

Quite apart from levels of nominal protection which some commentators consider to be very high, a World Bank study has found effective levels of protection to be so high as to inhibit the development of efficient and internationally competitive industries in the Caribbean[13]. High levels of effective protection can have the effect of encouraging low value-added production for the domestic or regional market, and discouraging resource allocation in favour of internationally competitive production.

CARICOM's Rules of Origin, designed to deepen the industrialization process, were found by a (controversial) World Bank Study to have an inhibiting effect on trade in light manufactures, in which some CARICOM States may well have a comparative advantage, and to operate to the disadvantage of the industrialization processes in the countries of the Caribbean. If these findings are correct, CARICOM's total trade regime might have had the effect of encouraging inefficient industries and delaying the Caribbean's preparedness for competing in international markets.

In Mexico, on the other hand, changes in tariff levels and the dismantling of quantative restrictions proceeded with breath-taking speed during the late 1980s, with emphasis on efficiency in domestic production through the opening up of the economy to external competition.

At their conference in Port-of-Spain in October 1992, CARICOM Heads of Government reduced the tariff levels under the CARICOM CET for non-agricultural products, from 45 to 35 per cent at the highest levels, and agreed to work towards a reduction to 20 to 5 per cent by 1998. Agricultural products will retain a range of 40 to 0 per cent up to 1998 (see Table 3). The new rates, which were agreed after protracted bargaining, are directed at creating an internationally competitive industry, and reflect a recognition of the prerequisites to participation in the changing global economy.

Much the same can be said about the Dominican Republic where the New Economic Policy, initiated in 1990, has paved the way for fundamental changes in the tariff of that country. The Government has consolidated the tariff schedule, which had previously consisted of 140 different rates, into seven ad-valorem import rates, falling within a range of between 5-35 per cent. The market

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[13] Ibid.

exchange rate will now be used for valuation. The new schedule allows for a four-year transitional period, during which the average nominal tariff rate will fall from 90 per cent to 20 per cent, if completion is achieved on schedule.

This new regime represents a significant simplification from one which suffered from the burden of 27 separate laws regulating imports. Previously there were three fixed exchange rates, applied to five different combinations of specific and ad-valorem taxes, making for 15 different ways to impose duties. The new tariff is expected to improve the competitiveness of industry, to streamline the administrative arrangements surrounding international trade, and make the new regulations less amenable to arbitrary interpretation.

Table III

CARICOM - COMMON EXTERNAL TARIFF RATES

CATEGORIES	1-1-93 TO 31-12-94	(1-1-95 TO 31-12-96)	1-1-97 TO 31-12-97	1-1-98
Agricultural Inputs	0	0	0	0
Non-competing primary inputs	5 (LDCs 0-5)	5 (LDCs 0-5)	5 (LDCs 0-5)	5 (LDCs 0-5)
Non-competing intermediate inputs	"	"	"	"
Non-competing capital inputs	"	"	"	"
Competing primary inputs	20	15	10	10
Competing capital goods	"	"	"	"
Selected exports	"	"	"	"
Competing intermediate inputs	25	20	15	15
Non-competing final goods	25	25-30	20-25	20
Agro-industry	30-35	25-30	20-25	20
Garments	"	"	"	"
General manufactures	"	"	"	"
Agriculture	40	40	40	40
LIST A	Suspended rates	Suspended rates	-	-
LIST B	Suspended rates LDCs	Suspended rates LDCs	-	-
LIST C	Minimum rates	Minimum rates	Minimum rates	Minimum rates
LIST O PARTS I AND III	Suspended rates LDCs	Suspended rates LDCs	-	-
Safety	0	0	-	-
Cost of living	0-20	0-20	-	-
Socio-economic and socio-cultural	"	"	-	-
Range of CET (Agriculture)	0-40	0-40	0-40	0-40
Range of CET (Non-agriculture)	5-35	5-30	5-25	5-20

Source: Derived from report of CARICOM Special Meeting of the Heads of Government, October 1992

CONSIDERATION OF INTERESTS OF NON-CARICOM MEMBERS OF CDCC

In the case of the non-CARICOM members of the CDCC which are also beneficiary countries under the CBI, NAFTA will erode the value of existing market preferences in the United States market. Like the rest of the CDCC subregion, these countries would ideally like to see included in the NAFTA, a mechanism for accommodating CBI-type trade preferences. The United States Virgin Islands has proposed to the Subcommittee on Trade of the Ways and Means Committee of the United States House of Representatives, the establishment of a transition mechanism to maintain relative preferences under the CBI for the longest possible period[14]. This transition mechanism would provide for an extended 20-year phase-out of United States duties under the NAFTA on a select number of Caribbean products. This phase-out period should be no less than the phase-out period that would be accorded to the most sensitive products from the United States, Canada and Mexico.

The United States Virgin Islands proposed a CBI "basket" of sensitive products, which includes rum, in which the United States Virgin Islands has a very special interest. It is perceived that NAFTA would confer an enormous advantage on Mexican distillers, which would have the effect of injuring the United States Virgin Islands' rum industry. Puerto Rico is similarly concerned about the potentially damaging effect on its rum industry. On the other hand, the reduction of trade barriers between Mexico and the United States may make some Puerto Rican goods more competitive in the Mexican market.

In the case of the Dominican Republic, there is concern that NAFTA might cause injury to the garment industry which has grown rapidly over the past 10 years, and has been in part responsible for the growth of export processing zones in the country. Such injury would result from Mexico's improved position under NAFTA as a supplier of garments to the United States. Companies in the export processing zones of the Dominican Republic employ 140,000 people and generate $250 million a year in foreign exchange. In the absence of any recent data on Haiti, it is supposed that there could be similar negative consequences for that country.

The interests of all members of the CDCC which are CBI beneficiaries are similar, in the sense of wanting to preserve, as far as possible, the preferential access to the United States market which they enjoy under the CBI; and equivalency with Mexico, of preferential access to the United States market for those products which currently do not benefit from duty-free access to the United States market.

NAFTA IN THE CONTEXT OF THE LOMÉ CONVENTION

Under the Lomé IV Convention, the European Community (EC) accords unlimited duty-free access to most of the Caribbean's agricultural and industrial products, including garments. Any attempt to gain accession to NAFTA would immediately focus attention on Article 25 of the Lomé IV Convention, under which

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[14] Honourable Derek M. Hodge, Lt. Governor of the United States Virgin Islands. Statement before the Sub-committee on Trade of the House Ways and Means Committee, Washington, D.C., 22 September 1992.

Caribbean members of the African, Caribbean and Pacific (ACP) group of countries would be obligated to extend most favoured nation (MFN) treatment to products of the European Community, similar to that accorded the United States and Canada. This MFN provision is a clause which is usually included in bilateral trade agreements, and the requirement to grant reciprocal duty-free access to Caribbean markets for the products of the European Community would also apply to the products of other countries, with which Caribbean countries may have negotiated bilateral trade agreements.

Caribbean countries, signatories to the Lomé Convention, may well consider that granting duty-free access to the products of the EC is a small price to pay in the context of a decision to seek accession to NAFTA -- if it is a price at all. If the Caribbean eventually finds itself in a position of having to agree to reciprocal duty-free access to the products of the United States of America, Canada and Europe, it may well be keen to provide a greater degree of choice to its consumers and producers by throwing the gates open to European products as well. The alternative is to risk termination of the Convention which, in the light of its acknowledged importance to the Caribbean, is not considered to be an issue at this time.

ELIGIBILITY CRITERIA FOR NAFTA

CBI-beneficiary countries do not automatically qualify for accession to NAFTA because they may have signed a framework agreement with the United States under the EAI, as the CARICOM countries have done. Official United States spokesmen have stated that the Caribbean countries are not considered to be eligible candidates for accession to NAFTA. This is clearly borne out from a summary of the criteria for participation in future free trade agreements negotiated under the EAI, provided by the United States delegation to a recent EAI Trade and Investment Council Meeting[15]. The following are among the elements specified:

- A country seeking to enter a FTA with the United States should be committed to a stable, macroeconomic environment and market-oriented policies;

- A country should be committed to the multilateral trading system. The EAI is considered to be compatible with, and supportive of, the multilateral trading system. The United States position states that FTAs should be fully consistent with the provisions of GATT article XXIV;

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[15] Attachment to CARICOM Document HGC/92/13/4.

- Prospective FTA partners must be seen to have demonstrated progress in achieving open trade regimes and are in good standing in the GATT;

- FTA arrangements will be reciprocal in nature, with a balance of rights and obligations on both sides.

For countries to make progress in terms of FTA eligibility, the central requirements are:

- Elimination of tariffs over an agreed phase-out period;

- A corresponding phase-out of non-tariff barriers;

- Provisions to permit the movement of goods and increased access to government procurement;

- Effective market access for services on a broad scale;

- Agreed rules for the application of standards and rules of origin;

- An investment provision containing the substantive equivalent of a "Bilateral Investment Treaty";

- Obligations to recognize and protect intellectual property rights. Agreement on intellectual property rights could precede an FTA negotiation;

- Special provisions to deal with natural resources and natural resource-based products; and

- FTAs should discipline specific categories of government actions which could undermine the basis of the agreement. These would include provisions covering subsidies, state trading, trade restraints justified on balance-of-payments grounds and the use of foreign exchange controls and restrictions.

These stipulations make clear why most CBI countries, particularly CARICOM countries, would at the present time be considered ineligible for accession to NAFTA. For progress in the above outlined areas to be considered satisfactory prior to accession, a number of strategic and policy changes would have to be put in place. Some of these changes may not be compatible with decisions already taken at the CARICOM level.

The stipulations regarding "special provisions to deal with natural resources and natural resource-based products" may hint at a requirement to concede elements of national prerogative regarding the exploitation of natural resources.

That FTAs should "discipline" specific categories of government actions with regard to the imposition of subsidies, state trading and trade restraints, is another criterion to which Caribbean governments would wish to pay attention. Generally, it might have been useful, (within the context of NAFTA or otherwise), to survey the extent to which individual member countries of the CDCC match to each of the criteria listed above, and this might become a part of the secretariat's continuing work in this area.

STRATEGIC CONSIDERATIONS FOR CARIBBEAN COUNTRIES

Caribbean countries seem to favour preservation and improvement of CBI-type arrangements, i.e. preservation of non-reciprocal duty-free access to the United States, and improvement in the sense of obtaining duty-free status for those products currently exempted under the CBI. This status would provide the Caribbean with reassurance against an important concern of Caribbean countries, i.e. their fear of inability to compete with Mexico, particularly in those commodities which are currently exempted from the CBI. It would also eliminate the prospect of having to grant reciprocal duty-free treatment to the United States, Canada, Mexico and Europe. This status would not eliminate the need to compete with Mexico in the United States market, but at least the degree of access for those products which were previously exempted from the CBI would have improved. The joint United States/CARICOM Council provides the CARICOM countries with a forum for making representation to the United States Administration on these issues. Consideration may need to be given to possibilities of coordinating the positions of the CARICOM and non-CARICOM Caribbean countries on this matter, if this is thought to be desirable and feasible.

Is this position attainable? Or why would the United States agree to preserving and improving the CBI in favour of the Caribbean countries? Three considerations come to mind. First, as was referred to above, the CBI has been of immense benefit to the United States economy, in terms of jobs and income. Secondly, it has also been of immense benefit to a number of Caribbean and Central American States, in terms of incomes, jobs and presumably social and political stability. Thirdly, there is the "small country argument", which might convince in favour of exemptions or special treatment.

The counter argument may be, first, that from the point of view of benefits to the United States economy, even greater benefits are expected out of NAFTA and EAI, since improved access would be provided for United States products. Secondly, a CBI-arrangement is simply not compatible with trends in the global economy, and with NAFTA and EAI, a large part of the motivation for which derives from these same global trends. Thirdly, there may be the perception that preferences given to the Caribbean have served to postpone rather than facilitate adjustment.

Even if this position were not attainable, the process of seeking it might allow the Caribbean valuable time to minimize the possible adverse consequences of inevitable adjustment. Adjustment to a different trading relationship with the United States; and possibly with Europe. More fundamentally, it might allow valuable time for the Caribbean to continue the process of putting its house in order and put in place the more liberalized trade and economic policies which are the essence of the current orthodoxy. It may provide time to assess its competitive position with Mexico in certain identified areas, and to adopt measures for dealing with it. It might provide valuable time also to seek to operationalize the investment and debt relief aspects of the EAI, again on the assumption that Caribbean countries will have satisfied the eligibility criteria for benefiting under the EAI[16]. Yet there is also the danger of losing policy focus and diluting the will to adjust in the pursuit of a position which may not be achievable.

It has been clear for some time that Caribbean countries needed to put economic adjustment measures in place, in order to bring these economies into line with evident global economic trends, and to provide a basis for their effective participation in the world economy. Buttressed, however, by preferential trading arrangements with Europe under the Lomé Convention, with Great Britain in respect of bananas, and with the United States and Canada under CBI and CARIBCAN; and conscious of the possible social consequences of adjustment, Caribbean countries have found it possible to continue to postpone adjustment, and to enjoy standards of living which are high by comparison with most developing countries. While it behooves policy makers and negotiators to attempt every possible means of alleviating social consequences of adjustment, there is no question that such adjustment is a current imperative. Since, as it happens, many of the NAFTA conditionalities coincide with the very adjustment imperatives of Caribbean countries, it may be difficult to adopt a non-NAFTA stance if it appears that NAFTA will come into being. The greater the extent of trade liberalization, the greater the opportunity for achieving industrial efficiency, the lesser the fear of trade reciprocity, and the closer the Caribbean gets to satisfying eligibility criteria for participation in NAFTA. The very recent modifications to the CARICOM CET are a step in the right direction. It would be desirable, however, if adoption of specific adjustment measures were informed by a careful examination of the likely economic and social impact of these measures on particular sectors and industries.

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[16] The change in the United States Administration may further delay the ratification and operationalizing of the NAFTA.

NAFTA may also present the Caribbean with certain opportunities. In particular, if the Caribbean does in time accede to NAFTA, it will be provided with an immensely enlarged market for its goods and services, and with considerably enlarged economies of scale for the production of certain goods for which, presumably, there would be a window of opportunity for Caribbean exporters. There would appear to be possibilities for the forging of business partnerships, for production sharing or contract manufacturing, involving the Mexican private sector; even possibly joint tourism promotion. It would be in the Caribbean's interest to make every effort to fully explore these possibilities and to seek to take every advantage of the vast opportunity which a NAFTA could provide. Much of the responsibility for these efforts would rest with the private sectors of Caribbean countries, which would have to proactively seek out and take advantage of all opportunities; and with the governments whose macroeconomic policies and business incentives must be focused on export development.

Strategically, it may suit the Caribbean's cause well if rather than continuing to seek preferences or concessions (which in many instances it fails to take advantage of), and appearing to be going against the tide of global and hemispheric liberalization, it presented a solid case for development support which was set explicitly within the framework of economic adjustment. Such support might consist of a package of financial and technical cooperation measures geared specifically to assisting industries with identified export potential, in market research and market penetration in the context of NAFTA, increasing industrial and economic efficiency, and dealing with some of the social costs of adjustment in the interest of hemispheric social and political stability. There may be a convincing case for the kind of three-pronged approach of the EAI, providing for increased investment and trade, supported by significant debt relief.

ROLE OF THE CDCC IN THE CONTEXT OF NAFTA

The CDCC has at least two important attributes. First, as an organ of the United Nations it has the potential for accessing the considerable resources of the United Nations system, and bringing them to bear on particular issue areas which may be of importance to the member States of the CDCC. Secondly, because of its geographical and numerical composition, it is the most pan-Caribbean of Caribbean organizations, and therefore uniquely qualified to serve as a forum for purposes of consultation on, and possible coordination of effort, where required, in regard to a range of issues. Inevitably, however, joint activity of certain types may be limited by the mainly consultative nature of the CDCC, which is not vested with the same kind of "political" or executive authority which characterizes certain other Caribbean regional organizations. The CDCC is essentially "... a coordinating body for whatever activities relating to development and cooperation may be agreed upon and to serve as an advisory and consultative body to the Executive Secretary of ECLAC in respect of Caribbean issues and circumstances". While the work of the Office tends to be circumscribed by limited resources and by its operational scope, this function may allow an even greater degree of consultation and coordination among the member countries than exists at present.

Issues such as NAFTA and the EAI are of interest to all of the members of the CDCC, and of very pressing concern to the majority of members, anglophone and non-anglophone. The CDCC may be the only institutionalised forum within which the members, participating as equals regardless of constitutional status, can exchange information on their interests in, and perspectives on, NAFTA and the EAI. It is the only organized forum within which the CARICOM members can be sensitized to the concerns of the non-CARICOM members on this matter; and where the non-CARICOM members can be made aware of the manner in which CARICOM has been dealing with the issue. The CDCC may be well positioned as a forum for obtaining agreement on a coordinated position on NAFTA at a pan-Caribbean level; for agreeing on a coordinated approach to some of the technical work to be done in regard to this issue; or for discussing and possibly coordinating aspects of the negotiating strategy.

In the case of NAFTA and the EAI, there is a clear dimension which relates to Latin American-Caribbean cooperation. Whatever possibilities there may be for seeking to relate with Latin America, as a whole, for purposes of the EAI or with Mexico for purposes of the NAFTA, may perhaps be usefully explored with the involvement of ECLAC/CDCC, given its innate Latin American connection. Inspite of the limitations alluded to above, the CDCC has the potential to play an important contributory role in dealing with issues which have a clear Latin American dimension. A number of member countries of the CDCC have already begun to increase bilateral economic cooperation with countries of Latin America. The Caribbean's concern with NAFTA and the EAI may possibly contribute to an even greater awareness of the need to devote attention to the fostering of a deeper economic cooperation relationship between the countries of the two subregions.

CONCLUSIONS

The North American Free Trade Agreement among the United States, Canada and Mexico reflects a desire for hemispheric trade and economic consolidation on the part of the members, in the face of changing global economic realities. It seeks to create a wider, more assured market for the products of the members, and to provide for a closer integration of their trade and investment relations.

The member countries of the CDCC, most of which are beneficiary countries under the CBI, are concerned that the margins of preferential access to the United States market which they enjoy under the CBI, may be reduced or lost. This concern is fed also by recognition of Mexico's "natural" advantage vis-à-vis the United States market. Garments, sugar, citrus and rum (and possibly tourism) are among the sectors which are particularly important to the Caribbean, and where existing competitive advantages may be eroded.

The Caribbean has a number of possible options. It might do nothing, and hope that time and other circumstances would determine the fate of NAFTA or otherwise result in the preservation of the status quo. This would be unfortunate in that it would serve to postpone inevitable economic adjustment. The NAFTA "conditionalities" coincide with the requisites of economic adjustment in many Caribbean countries; and with evolving global orthodoxy. So that the Caribbean may be ultimately constrained to seek membership in NAFTA, if it appears likely that the agreement will be operationalized. The adjustment processes in the Caribbean may need to be buttressed by development support packages from the international community, which will both prepare the countries for participating in, and benefiting from, an increasingly competitive world, and assist them to deal with some of the social and political fall-out of such adjustment.

The Caribbean's accession to NAFTA may challenge the countries' private and public sectors to take advantage of new opportunities which the expanded North American market may provide.

The CDCC may be a useful forum for consultation on issues such as the EAI and NAFTA, and for an exchange of perspectives from both the anglophone and non-anglophone Caribbean.