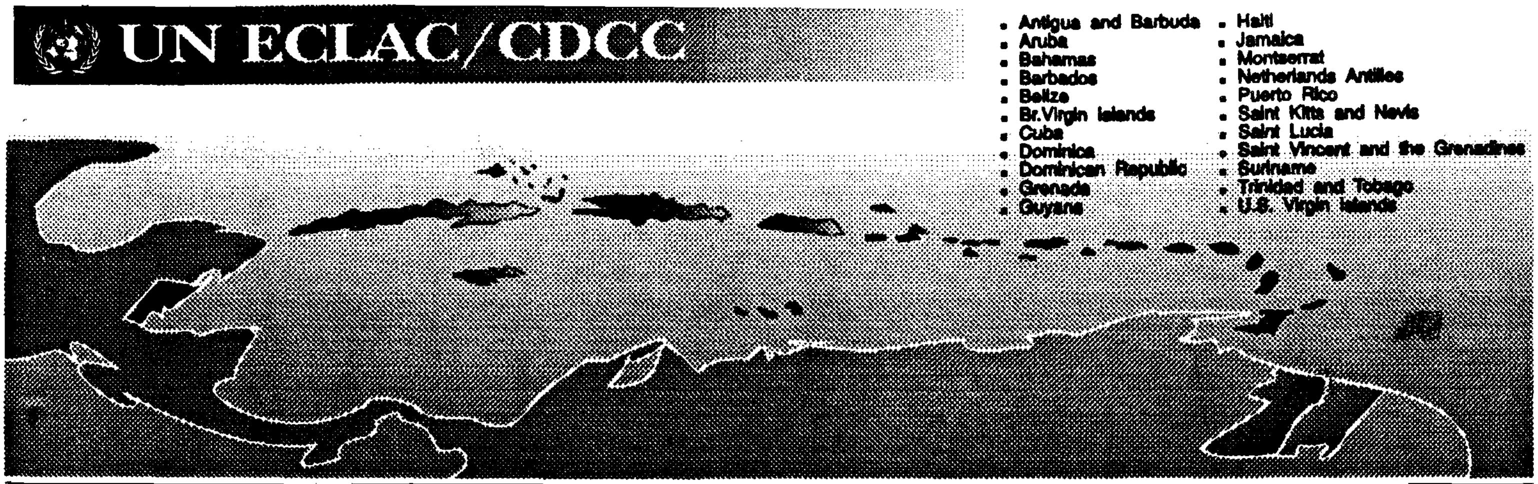

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THE NORTH AMERICAN FREE TRADE AGREEMENT AND THE QUESTION OF ELIGIBILITY OF CARIBBEAN COUNTRIES

UNITED NATIONS
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CARIBBEAN DEVELOPMENT AND COOPERATION COMMITTEE

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INTRODUCTION

After a lengthy debate during which the benefits and costs of the North American Free Trade Agreement (NAFTA) were thoroughly scrutinized especially in the United States, the United States Congress finally ratified the NAFTA Treaty allowing it to come into effect in January 1994. This ratification brings into existence one of the biggest free trade areas in the world in terms of both population and combined GDP and reinforces the often expressed view that the world was moving towards the establishment of three giant trading blocs in America, Europe and Asia[1]. Another significant move towards regionalisation came at the beginning of 1994 with the establishment of the European Economic Area (EEA) which brings together the countries of the European Union and those of the European Free Trade Association (EFTA) except Switzerland and Liechtenstein[2] and Iceland.

Although it is sometimes argued that trade blocs may quicken the pace of trade liberalization, it is generally feared that progress towards regional trade blocs may further increase trade discrimination in the world and heighten the possibility of trade conflicts. However, recent unilateral trade liberalization policies implemented by many countries combined with the preferential and association trade arrangements which exist between regional blocs and third countries and the generally cooperative relations among trading blocs resulted in much freer world trade than generally believed and tended to point towards the strengthening of multilateral trade relations in the world. This trend was further reinforced with the successful conclusion at the end of 1993 of the multilateral trade negotiations under the General Agreement on Tariffs and Trade (GATT) which, in addition to further reductions in tariffs on goods, includes deals on farm trade, services, textiles as well as intellectual property rights and investment.

The conclusion of the Uruguay Round of the Multilateral Trade Negotiations and the ratification of the NAFTA by the United States Congress constitute further evidence of movement towards an increasingly liberal international trading environment, which is likely to shape the future of trade and economic relations in the western hemisphere and the world. Under these circumstances, the domestic economic policies pursued by Caribbean countries assume greater importance since they will determine to a large extent the response of Caribbean economies to the unfolding liberalization process.

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[1] Asia does not yet have a formal Free Trade Area although a framework agreement was signed in December 1992 to establish an Asian Free Trade Area (AFTA) by the year 2006. Finance and Development, March 1994.

[2] EFTA countries are; Austria, Sweden, Norway, Finland, Iceland, Switzerland and Liechtenstein. EEA has 372m consumers and a combined GDP of US$6.6 trillion. The Economist, January 8-14, 1994. NAFTA had a combined 1991 GDP of 6.5 trillion with a population of 365 million. Congressional Budget Office, A budgetary and economic analysis of the North American Free Trade Agreement, July 1993.

The likely effects of NAFTA on trade of the member countries of the Caribbean Development and Cooperation Committee (CDCC) with the United States and Canada, taking into account the preferential trade agreements (the Caribbean Basin Initiative - CBI and the Canada-Caribbean Trade and Economic Cooperation Agreement - CARIBCAN) between these two countries and the Caribbean, were considered in a paper dealing with the Caribbean and NAFTA submitted to the fourteenth session of CDCC[3]. The likely effects of a GATT agreement on CDCC trade were considered in a paper presented to the thirteenth seession of CDCC[4].

The access to the United States and Canadian markets that Mexico will be afforded under NAFTA may put competitive pressure on CARIBCAN and CBI Caribbean member countries' exports to these two major trading partners. Exports which are likely to be affected include rum, alcoholic beverages, sugar, mangoes and cut flowers, among others. In addition, Mexico's admission to NAFTA will give that country an advantage compared to CBI and CARIBCAN Caribbean countries with the phasing out of tariffs on goods which remain dutiable under CBI and CARIBCAN, i.e leather goods and apparel.

It is also possible that Mexico's membership of NAFTA may divert investment from Caribbean countries to Mexico especially in the garment industry which has been creating valuable employment in the export processing zones of Caribbean countries. On the other hand, access to a large market, technology and more efficiently produced inputs for both industry and agriculture and increased investment, which may result from entry to NAFTA, point to the potential positive contributions which NAFTA may bring to its members.

The fact that most Caribbean countries signed framework agreements with the United States in the context of the Enterprise of the Americas Initiative (EAI) demonstrates a clear interest on the part of the Caribbean subregion to further strengthen its trade and investment relations with other countries in the western hemisphere. With regard to the NAFTA, the same interest was shown and one country, Jamaica, has already signed both an intellectual property rights agreement and a bilateral investment treaty with the United States. Another country, Trinidad and Tobago, is in the process of negotiating similar agreements with the United States. The intellectual property rights agreement and the trilateral investment treaty are two of the eligibility criteria to the NAFTA which have been outlined by the United States.

The outcome of the NAFTA negotiations and the ratification process were not entirely unexpected and had already been the subject of much reflection and debate within the Caribbean because of the importance of North America, especially the United States, for trade and investment in the Caribbean. One of the issues raised in that debate relates to the continuation of trade liberalization in the western hemisphere in the context of the EAI and the question of eligibility for membership in NAFTA, which is generally believed to be the first step towards a hemispheric-wide free trade area. During fourteenth session of the CDCC, member governments requested the secretariat to look at the eligibility criteria as presented by the United States and assess the readiness of member countries for possible accession to NAFTA.

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[3] LC/CAR/G.373 - The Caribbean and the North American Free Trade Agreement (NAFTA)

[4] LC/CAR/G.322 - Some possible implications for CDCC member countries of recent global and regional developments.

This paper presents some of the main areas of agreement of NAFTA especially those related to Mexico/United States trade and economic relations. It also examines the question of eligibility to NAFTA in the light of the economic and trade policies of selected Caribbean countries[5].

Some of the Main Features of the North American Free Trade Agreement (NAFTA)

The main objectives[6] of NAFTA are as follows:

(a) Eliminate barriers to trade in, and facilitate the cross-border movement of goods and services between the territories of the Parties;

(b) Promote conditions of fair competition in the free trade area;

(c) Increase substantially investment opportunities in the territories of the Parties;

(d) Provide adequate and effective protection and enforcement of intellectual property rights in each Party's territory;

(e) Create effective procedures for the implementation and application of this Agreement, for its joint administration and for the resolution of disputes; and

(f) Establish a framework for further trilateral, regional and multilateral cooperation to expand and enhance the benefits of this Agreement.

For the achievement of its objectives, the treaty provides for the immediate or phased elimination of tariffs and quotas on trade between United States, Mexico and Canada and contains rules and procedures governing the movement of people and capital among these three countries. It also deals with trade in services and the protection of intellectual property rights.

In addition, side-accords on labour, the environment and import surges were signed as part of the overall process leading to NAFTA's passage in the United States Congress.

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[5] This assessment will focus on CDCC countries where relatively more data are available; the Non-Independent Caribbean Countries (NICCs) and Cuba are not included in this assessment.

[6] Taken from the North American Free Trade Agreement, Vol.1 Part One, Chapter One, Article 102

A. Market access

1. Tariffs and non-tariff barriers

United States and Canadian tariffs were already low; they averaged about 4 per cent while those of Mexico averaged 10 per cent. Under the NAFTA, all tariffs will be eliminated immediately on most goods and those remaining will be phased out over a period of five to ten years. However, tariffs on some goods considered sensitive will be phased out over a 15 year period. All tariffs should be eliminated by the year 2008, but the agreement provides for an accelerated phasing-out of tariffs, provided it is decided by the three signatories.

The agreement also addresses the issue of non-tariff barriers and provides for the immediate or progressive elimination of all quotas and other restrictions to trade, except those which are consistent with GATT. It also contains general criteria governing the rules of origin which qualify a product for preferential treatment under NAFTA. To qualify, goods have to be wholly grown or produced in the NAFTA region or to have been substantially transformed in the NAFTA countries so as to undergo a change in tariff classification or contain a minimum regional value content of approximately 50 to 60 per cent depending on the valuation method used[7].

B. Rules of trade

The agreement provides for the three member countries to continue to operate their systems of anti-dumping and counter-vailing measures and change them as they see fit. However instead of the national panels determining unfair trading practices and deciding on the redress required, such decision will now be taken by a binational panel under NAFTA. And the decision of the binational panel could be challenged before a trilateral committee.

The present norms and standards, including phytosanitary requirements applied by NAFTA members, will continue under the agreement but they should be based on scientific principles and should not be used as disguised restrictions to trade. Any changes to norms and standards in any of the countries should be brought to the attention of the other partners. In order to further limit the discriminatory nature of these norms, the agreement provides for consultations and technical cooperation among the three countries in this important area.

C. NAFTA provisions with regard to specific sectors

1. Agriculture

Under NAFTA, trade in agriculture is governed by two separate agreements; one between the United States and Mexico and the other between Canada and Mexico. CUSFTA(Canadian - U.S Free Trade Area) applies to agricultural trade between Canada and the United States.

[7] The net cost method of valuation stipulates that the regional value content should not be less than 50 per cent while the transaction value method stipulates a minimum regional value content of 60 per cent, NAFTA, Vol.1, Chapter Four, Article 402.

The United States/Mexico agreement on agriculture stipulates that most agricultural products will be free of all tariffs immediately or within five to ten years. The remainder of the products will be free of tariffs within 15 years. Products whose tariffs will be phased out over 15 years include, asparagus, broccoli, cucumbers, dried garlic, dried onions, orange juice, peanuts and sugar for the United States; and dry edible beans, corn, milk powder, orange juice and sugar for Mexico. Import quotas on agricultural products will be converted to either tariff rate quotas or ordinary tariffs which will be eliminated progressively. The agreement specifies special rules of origin for some agricultural products i.e dairy products: no non-NAFTA milk or milk product could be used to make milk, cream, cheese, yoghurt or milk-based drinks and citrus juices must be made of 100 per cent NAFTA citrus juice. The national sanitary and phytosanitary measures are allowed to continue under the agreement which also provides for the establishment of a trilateral commission on agriculture, one role of which will be the monitoring of the implementation of the agreement on agriculture. Where domestic support for agriculture is provided, the agreement stipulates that it should as far as possible have minimal or no trade-distorting effects.

2. Textile and apparel

NAFTA provides for the phasing out of all tariffs and quotas on textile and apparel as well as a number of safeguards during a transition period of 10 years.

United States/Canada trade in textile and apparel will continue to be governed by CUSFTA and tariffs on that trade will be phased out in accordance with that agreement. With regard to United States/Mexico trade, tariffs will be eliminated immediately for certain types of goods i.e apparel products from maquiladoras. Other tariffs will be phased out over a 10-year period.

Quotas on textile and apparel meeting the rules of origin should be eliminated immediately and those on products not meeting the rules of origin will be phased out over a 10-year period. NAFTA specifies a yarn-forward rule of origin which stipulates that the apparel must be made in NAFTA from fabric made in NAFTA and from yarn made in NAFTA.

3. Energy and petrochemicals

NAFTA provides for the immediate elimination of tariffs on products such as gasoline, heating oil, secondary petrochemicals and some high technology types of equipment for gas and oil production. Tariffs on other energy and energy related products will be phased out over five to ten years. Mexico retains the right to restrict investment in refined petroleum products and basic petrochemicals, as well as the right to limit its exports and price them above the domestic price levels.

The United States and Canada will be allowed, under the agreement, to invest in the production, distribution and marketing of secondary petrochemicals which include aromatics and olefins. The United States and Canada will also be allowed to engage in the production of electricity for own use and can sell the surplus generated under certain conditions.

4. Services

Under NAFTA, services originating in one of the three signatories should benefit from the principle of national treatment so that the firms providing these services are not treated less favourably than domestic ones. The agreement also stipulates that the licensing and certification systems in member countries should always be based on objective and transparent criteria, and that no service provider from a member country should be required to establish or maintain a representative office in another member country as a condition for a cross-border provision of a service.

Services including air services, basic voice-telecommunications, government-provided social services, maritime services are excluded under the agreement which also provides for a slower pace of liberalization in the financial services sector. Only in the year 2000 will wholly-owned financial subsidiaries (banks, security firms, insurance, etc) be allowed to operate freely in any of the three members market. In addition, land transportation will only be completely free in the year 2000.

D. Investment, intellectual property and environment

1. Investment

NAFTA provides for investors from the three member countries the freedom to invest in any of the countries without any restrictions, except in some sectors like the financial services sector. Investors from other member countries should be afforded the same treatment as domestic investors. In addition, the agreement provides for the unrestricted transfer of profits and dividends generated through investment activities in the free trade area and the establishment of a framework for dispute settlement.

2. Intellectual property

The agreement provides for the protection of intellectual property rights in the three member countries. This includes enactment of legislation for the protection of trademarks, copyrights and patents and enforcement of the protection provided while ensuring that enforcement does not become a barrier to legitimate trade.

NAFTA requires its members to apply the substantive provisions of the following international conventions:

(a) The Geneva Convention for the Protection of Producers of Phonograms Against Unauthorized Duplication of their Phonograms, 1971 (Geneva Convention).

(b) The Berne Convention For the Protection of Literary and Artistic Works, 1971, (Berne Convention).

(c) The Paris Convention for the Protection of Industrial Property, 1967 (Paris Convention).

(d) The International Convention for the Protection of New Varieties of Plants 1978 (UPOV Convention or the International Convention for the Protection of New Varieties of Plants, 1991 (UBV Convention).

Mexico, the country with the weakest intellectual property laws has already substantially revised its laws to provide more protection and greater power of enforcement.

NAFTA intellectual property agreement is a major improvement on CUSFTA which did not include a chapter on intellectual property issues despite prolonged negotiations between Canada and the United States.

3. Environment

The environmental effects of NAFTA are addressed in the NAFTA agreement itself and the substantive environment issues are included in a side-accord negotiated separately. NAFTA acknowledges the potential environmental effects of increased growth induced by the implementation of the agreement, and pledges to promote sustainable development and establish or strengthen environmental laws and regulations and ensure their enforcement.

In addition, the agreement forbids the lowering of environmental standards to attract foreign investment and allows for the other partners in the FTA to enter into consultations with the party believed to be engaged in such a practice in order to resolve the issue.

NAFTA also provides for the possibility of subjecting new investment to stricter environmental standards than existing ones.

E. Accession

The accession clause in the North American Free Trade Agreement states that "Any country or group of countries may accede to this agreement subject to such terms and conditions as may be agreed between such country or countries and the commission and following approval in accordance with the applicable legal procedures of each country"[8].

Eligibility to NAFTA and some aspects of Caribbean trade and economic policies

The eligibility criteria as outlined in various forums by United States officials include a stable macroeconomic environment, an open trading system in goods and services, a commitment to a multilateral trading system and more liberal foreign investment rules and regulations, a better protection and tougher enforcement of intellectual property rights and a better protection of the environment.

[8] See NAFTA, Vol.I, Chapter Twenty-Two, Article 2204.

All these criteria could be open to various interpretations, but it is clear that there are minimum requirements which seem to be necessary and which call for a set of policy decisions essential for moving towards the fulfilment of these criteria. Prudent fiscal, monetary and exchange rates policies, lower trade barriers, guarantees for foreign investment, enactment of laws on intellectual property rights and the environment and commitment to the enforcement of these laws are some of the policy actions called for in preparation for NAFTA negotiations.

These policy decisions are at the discretion of governments and their success depends to a large extent on governments' commitment to their policies and the credibility that such commitment carries with the local population and the international community. The criteria outlined for eligibility to NAFTA are normally brought about by good economic management and tend to reinforce such management and lead to economic growth and higher standards of living.

A. <u>A stable macroeconomic environment</u>

It is generally agreed that a stable macroeconomic environment is the result of sound economic management and serves to reinforce such management. The stability of the macroeconomic environment is brought about by the practice and long-term commitment to prudent fiscal, monetary and exchange rate policies consistent with sustainable fiscal and balance of payments positions. Low levels of inflation, higher levels of savings and investment, competitive exchange rates and a manageable debt burden are the expected outcome of the implementation of these prudent policies.

Although there are bound to be fluctuations in well-managed economies, due to both external (i.e decrease in prices of major export commodities) and internal (i.e natural disasters) factors, these economies are normally able to adjust in a relatively short period of time and maintain over any number of years comparatively good macroeconomic stability.

The prudent management of fiscal and balance of payments deficits would ensure that their financing does not lead to inflationary pressures in the economy, higher interest rates or a rapid increase in external indebtedness and that the excess expenditure is always put to productive use which will yield some benefits to the economy.

The fiscal deficits which are often the underlying cause of balance of payments deficits could be financed by domestic private savings, foreign savings and money creation. These three forms of deficit financing could lead, if used excessively, to macroeconomic disequilibria. The use of money creation to finance fiscal deficits leads in the medium term to higher levels of inflation; the use of domestic savings may raise interest rates and crowd out private investment; and the use of foreign savings may increase the debt burden to unsustainable levels. Moreover a fiscal deficit increases demand in the economy and also tends to increase imports creating or worsening the deficit of the current account of the balance of payments. The use of monetary policy through increases in money and credit to accommodate the fiscal deficit tends to be inflationary and worsens balance of payments positions. The additional demand in the economy may also increase the levels of wages and prices and may result in real exchange rate over-valuation which tends to get worse with inflows of capital to finance the deficit.

There are no internationally agreed targets for fiscal and current accounts deficits, inflation and exchange rates which, if achieved, would prevent macroeconomic disequilibria from leading to macroeconomic instability.

A sustainable level of balance of payments and fiscal deficits, as well as the level of inflation and exchange rates, would depend on the particular circumstances of the country concerned. A high rate of growth and rate of private savings combined with a relatively well developed capital market in a country could allow it to absorb its deficits more easily than a low growth, low saving highly distorted economy. Countries do not need to balance their budgets every year, and small deficits do not normally destroy macroeconomic stability. However extreme caution will always be required to prevent deficits from becoming unmanageable.

Budget and current account deficits, inflation and exchange rates are closely linked and tend to have multiple effects on each other, as well as on savings, investment, wages and prices.

Obviously a deterioration of fiscal and balance of payments positions over a number of years, a steady rise in the rate of inflation and an over-valued exchange rate demonstrated by a secular decline in exports earnings are clear signs of deepening macroeconomic disequilibria which are bound to lead to stabilization and structural adjustment programmes and the economic disruptions which those programmes bring about. The disruptions will be temporary if the stabilization programmes succeed, but it may last much longer if stabilization policies have failed or been abandoned.

In the next section, an attempt will be made to make a general assessment of the macroeconomic stability of some Caribbean economies on the basis of selected macroeconomic data over a period of 10 years. The assessment will examine fiscal management, inflation and exchange rate management

1. <u>Fiscal management of Caribbean countries</u>

Public sector savings have been generally moderate over the last 10 years despite the fact that some countries achieved surpluses over the period. Since these deficits are usually central government deficits, they tend to overstate the adequacy of the fiscal positions of the countries.

Table I
PUBLIC SECTOR SAVINGS IN THE CARIBBEAN 1980-1990
(as per cent of GDP)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Antigua and Barbuda a_/	..	..	-1.6	-2.8	-2.1	-0.4	2.5	1.4	-0.1	-2.9	-3.7
The Bahamas	7.7	6.3	3.3	3.7	5.7	6.0	6.1	n.a	n.a	n.a	n.a
Barbados	3.1	1.9	0.9	2.4	0.7	0.7	1.7	-0.8	3.3	4.0	-1.9
Belize	4.4	2.3	-2.1	-3.3	2.3	5.7	8.5	9.3	13.1	11.4	12.8
Dominica	-8.7	-0.8	-0.4	1.8	2.6	4.8	7.8	7.8	7.5	4.8	1.5
Dominican Republic	1.5	0.5	-1.4	0.3	0.9	1.2	1.4	5.2	9.9	9.4	6.0
Grenada	-0.3	-0.7	0.8	2.1	2.1	4.1	1.3	-1.0	5.2	-3.7	0.5
Guyana a_/	-9.2	-14.4	-17.2	-30.8	-43.7	-49.9	-39.0	-96.6	-30.5	-7.7	-19.5
Haiti	0.2	-0.9	0.6	1.2	0.6	1.0	0.4	-0.7	0.4	-0.9	-0.6
Jamaica a_/	-7.7	-4.0	-3.6	-8.6	-1.5	-1.0	4.5	4.2	2.5	4.4	4.4
St. Kitts and Nevis	4.7	-5.4	4.4	-4.6	1.3	-1.7	4.7	6.8	4.1	5.8	1.9
St. Lucia a_/	0.4	0.4	-2.7	-1.6	-0.6	0.4	2.5	4.5	7.4	6.1	5.8
St. Vincent & the Grenadines	-0.5	-1.8	1.1	-1.0	6.0	7.8	8.5	8.5	5.8	7.2	8.1
Suriname	0.8	-2.2	-4.6	-12.7	-13.6	-18.0	-24.3	-23.7	-17.9	-13.4	-18.0
Trinidad and Tobago	19.1	21.9	6.6	2.5	1.9	3.5	-1.5	-0.8	-3.2	-1.7	0.0

a_/ Central Government
n.a. : Not available
Source: IBRD Economic Memoranda

Table I indicates that Jamaica and the Dominican Republic improved their fiscal positions substantially from the mid-1980s onward. Jamaica decreased its public sector deficit from 8.6 per cent in 1983 to 7.5 per cent in 1984 and 1 per cent in 1985. It then turned its deficit into a surplus of 4.5 per cent of GDP in 1986 and 4.4 per cent in 1989 and 1990. The Dominican Republic had fiscal surpluses throughout the 1980s except for a deficit of 1.4 per cent of GDP in 1982. Its fiscal surplus in 1990 stood at 6 per cent of GDP, a decline from 9.4 per cent in 1989.

Towards the end of the 1980s Belize produced the highest fiscal surplus in the Caribbean. Its fiscal surplus were 9.3 per cent, 13.1 per cent, 11.4 per cent and 12.8 per cent of GDP in 1987, 1988, 1989 and 1990, respectively. The countries of the Organization of Eastern Caribbean States (OECS), except Antigua and Barbuda, also tended to produce fiscal surpluses throughout the 1980s except for one or two years. These surpluses seem to be generally lower in Grenada and Saint Kitts and Nevis. The surplus for Saint Vincent and the Grenadines increased from 6 per cent of GDP in 1984 to 7.8 per cent in 1985, 8.5 per cent in 1986 and 1987. It then decreased to 5.8 per cent of GDP in 1988 and increased again to 7.2 per cent in 1989 and 8.1 per cent in 1990.

Guyana and Suriname have produced fiscal deficits throughout the 1980s. One of the biggest deficits was Guyana's 96.6 per cent of GDP in 1987. However, since then the deficit has been on the decrease, standing at 30.5 per cent in 1988, 7.7 per cent in 1989 and 19 per cent in 1990. Suriname fiscal deficit has jumped from 4.6 per cent of GDP in 1982 to 12.7 per cent in 1983. It reached its highest level of 24.3 per cent in 1986 and stood at 18 per cent of GDP in 1990. The fiscal surpluses of Trinidad and Tobago throughout the early part of the 1980s turned to deficits from 1986 onwards. The deficit was at 1.5 per cent of GDP in 1986, 3.2 per cent in 1988 and 1.7 per cent in 1989.

The fiscal positions of Caribbean countries over the last 10 years indicate that some of the countries have handled their fiscal management better than others despite the various shocks (i.e natural disasters, fall in export prices, increase in interest rates and import prices, etc.) which they faced over the years. Guyana and Suriname stand out as the two countries which have allowed their deficits to reach clearly unsustainable levels. Fiscal deficits do not endanger macroeconomic stability provided that they can be readily financed. One way of financing fiscal deficits is foreign capital. This is not under the control of the deficit country and its ready availability indicates the credit-worthiness of the country concerned and the sustainability of its deficit. Therefore, one way of assessing the adequacy of fiscal management in countries is to use one of the indicators of relative creditworthiness, the debt to GDP ratio which indicates the ability of the countries to finance their deficits with voluntary inflows of capital. Table II shows average external debts to GDP ratios in the World classified by region and financial criteria in addition to average debt to GDP ratios for 15 heavily indebted countries.

Guyana, Jamaica and the Dominican Republic had constantly rising levels of debt to GDP throughout the 1980s[9]. Guyana's debt to GDP ratio started at 129.7 cent in 1980 and increased steadily since then to reach 726 per cent in 1989 and 860 in 1990. Jamaica's debt to GDP ratio, although lower, is still high and it started at 71.4 per cent in 1980 and increased every year since then to reach 192.8 per cent in 1985 before declining to 110.7 per cent in 1991. The Dominican Republic ratio of debt to GDP increased steadily throughout the 1980s, it reached a peak of 83.7 per cent in 1988 before declining to 58.9 per cent in 1991. Barbados debt to GDP ratio increased steadily in the 1980s from 12.9 per cent

Trinidad and Tobago's debt to GDP ratio jumped from a low level of 18.8 per cent in 1985 to 37.1 per cent in 1986, it then went to 58.6 per cent in 1987 and 57 per cent in 1988, clearly moving towards unsustainably high levels which brought about the debt serving difficulties which the country faced in the latter part of the 1980s. The debt to GDP ratio had since declined to stand at 25 per cent in 1991.

Among the OECS countries, Antigua and Barbuda had the highest debt to GDP ratio over the period. It stood at 63 per cent in 1981, decreased to 30 per cent in 1985 and resumed its upward increase to 90.6 per cent in 1987.

The other OECS countries' debts to GDP ratios ranged from 13 per cent to 50 per cent throughout the 1980s. Saint Lucia stands out as the country which kept its debt to GDP ratios at a low level throughout the period. Its highest debt to GDP ratio was 20.5 per cent in 1988. The other OECS countries' debt to GDP ratios were rather high at 40 to 50 per cent of GDP and were on the verge of crossing the critical values of sustainability.

Belize's debt to GDP ratio stood at 60.2 per cent in 1985, increased to 62.0 per cent in 1986 and then decreased to 55.1 per cent in 1987 and 49.7 per cent in 1988. In the 1980s some CDCC member countries ratios of debt to GDP (Jamaica, Guyana, the Dominican Republic, Antigua and Barbuda and Belize) were higher than the average for developing countries and more in line with the average for countries with recent debt servicing difficulties and the heavily indebted countries shown in Table II.

[9] Debt to GDP data taken from The World Bank: The Caribbean Common Market, Trade policies and regional integration in the 1990s, December 1990; and ECLAC database.

Table II
DEVELOPING COUNTRIES: RATIO OF EXTERNAL DEBT TO GDP[1] 1981-1992

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Ratio of external debt to GDP												
Developing countries	**27.7**	**30.6**	**32.6**	**33.6**	**35.5**	**37.5**	**37.1**	**34.1**	**31.3**	**30.0**	**32.2**	**28.6**
By region												
Africa	31.2	34.7	37.7	41.5	46.6	49.4	49.6	48.4	50.2	48.8	58.8	56.5
Asia	18.8	21.8	22.9	23.8	26.5	29.2	27.7	25.1	21.3	20.3	25.4	24.1
Europe	34.4	32.8	34.3	36.3	40.2	41.0	44.8	42.7	40.1	37.6		
Middle East	19.0	22.3	24.3	25.6	27.1	31.3	31.2	30.7	29.0	28.2		
Western Hemisphere	39.8	43.0	46.8	46.3	45.4	44.1	43.8	38.8	37.0	35.8	43.4	36.8
By financial criteria												
Countries with recent debt-servicing difficulties	37.9	40.7	44.6	46.2	46.9	47.6	46.5	43.6	41.9	40.8	50.8	43.6
Countries without debt-servicing difficulties	21.2	23.9	25.1	26.3	30.1	32.7	32.9	29.4	25.6	24.3	30.9	29.0
Miscellaneous groups												
Fifteen heavily indebted countries	37.6	41.0	46.2	46.7	46.0	45.1	44.2	39.7	38.3	37.0	42.2	39.6

[1] Excludes debt owed to the Fund
Source: I.M.F World Economic Outlook 1989 and 1992

Saint Lucia, Saint Vincent and the Grenadines and Saint Kitts and Nevis seem to have pursued prudent fiscal management throughout the 1980s and maintained sustainable debt to GDP ratios.

2. Inflation in Caribbean countries (Table III)

The Dominican Republic and Guyana saw a steep increase in inflation rates in the middle of the 1980s, a trend which continued up to 1990 when the rates of inflation stood at 100.7 per cent and 64.4 per cent, respectively. The rates declined drastically in 1991 and 1992 in the Dominican Republic to stand at 4.0 and 6.6 per cent respectively. In the case of Guyana, there was a big increase in 1991 where the rate stood at 89 per cent, followed by a steep decline in 1992 to reach 15 per cent.

Jamaica's rate of inflation accelerated from 1989 onwards. It increased from 17.2 per cent in 1989 to 29.8 per cent in 1990 and then to 51 per cent and 77.3 per cent in 1991 and 1992.

Trinidad and Tobago has had generally moderate rates of inflation throughout the 1980s ranging between 16 per cent and 9 per cent. Its rate of inflation also decreased from 12.1 per cent in 1988 to 3.8 per cent in 1991 and 6.5 per cent in 1992. The OECS countries have also generally had moderate levels of inflation. Their inflation rates ranged between about 10 and 0.5 per cent over the period. In 1992, the range was between 2.8 per cent in Dominica and 4.6 per cent in Grenada.

Jamaica, Dominican Republic, Guyana and Haiti had the highest inflation rates of CDCC member countries with a very strong increase registered by Jamaica whose inflation rate jumped from a high level of 51 per cent in 1991 to 77.3 per cent in 1992. Haiti also registered a big increase, its inflation rate went from 6.6 per cent in 1991 to 17.5 per cent in 1992. In the case of Guyana, the inflation rate declined from 89 per cent in 1991 to 15 per cent in 1992 but is still at a rather high level.

Inflation reflects a serious malfunctioning of the economy which undermines the pricing system and leads to the misallocation of resources and their inefficient use. Monetary and fiscal policies have to be oriented towards the achievement of low inflation in order to ensure price stability.

Moderate levels of inflation in the range of 0 to 5 per cent are normally considered prudent and policies are usually geared to maintaining inflation at these levels[10] or slightly higher ones. Apart from Jamaica, Guyana, Haiti and the Dominican Republic, the other CDCC countries seem to have been able to maintain inflation rates at reasonable levels. Efforts to reduce inflation further or maintain it at low levels seem to be under way in most of the countries despite the transitional costs of loss of output and employment.

[10] The Reserve Bank of New Zealand target for inflation at the end of 1993 is 1.50-2 per cent, the Bank of Canada's target is 2 per cent by 1995.

Table III
CARIBBEAN COUNTRIES - END OF PERIOD INFLATION RATES, 1980-90

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Antigua and Barbuda a_/	16.3	7.0	1.9	3.6	3.8	-2.0	1.3	8.3	3.4	5.3	n.a	2.1	..
The Bahamas	12.2	9.0	4.5	3.4	4.6	4.8	6.9	4.2	4.8	6.2	3.1	7.1	5.7
Barbados	13.9	12.3	6.8	5.5	5.1	2.3	-0.4	6.2	4.5	5.9	3.6	6.3	6.1
Belize	n.a.	11.9	3.9	2.6	5.8	-0.6	2.4	2.0	3.3	2.1	4.0	5.6	2.8
Dominica	21.4	8.1	4.1	2.6	2.1	3.5	2.9	2.9	5.2	4.3	10.8	---	---
Dominican Republic	4.4	7.5	7.2	5.4	40.8	28.4	6.5	25.0	57.6	41.2	100.7	4.0	6.6
Grenada	21.9	10.4	7.1	6.5	3.6	1.8	0.0	0.6	6.5	3.6	3.7	1.0	4.6
Guyana	8.6	29.0	19.2	11.2	28.0	7.7	6.6	34.6	51.5	89.3	64.4	89.0	15.0
Haiti	15.3	12.3	5.0	11.2	5.4	17.4	-11.4	-4.1	8.6	14.4	24.3	6.6	17.5
Jamaica	28.7	4.9	6.9	16.8	31.1	23.1	10.6	8.4	8.6	17.2	29.8	51.0	77.3
St. Kitts and Nevis	14.4	8.5	3.1	2.9	2.7	1.8	-0.8	3.4	-0.6	6.6	3.7	4.5	1.5
St. Lucia a_/	n.a.	n.a.	4.6	1.5	1.6	1.2	2.2	7.0	0.8	4.4	4.5	7.3	3.2
St. Vincent & the Grenadines	n.a.	n.a.	4.8	5.1	2.1	1.3	0.5	3.4	2.1	3.4	8.4	2.3	3.1
Suriname	10.6	7.6	6.3	4.2	4.5	15.8	30.0	52.2	-7.6	n.a.	n.a.	---	---
Trinidad and Tobago	16.5	11.5	10.9	13.7	14.1	6.6	9.8	8.2	12.1	9.3	9.5	3.8	6.5

a_/ Period average
n.a.: Not Available
Source: IBRD Economic Memorandum and IMF International Finance Statistics and ECLAC

3. Exchange rate policies

The prudent conduct of exchange rate policies together with fiscal and monetary policies is essential for the prevention of serious macroeconomic imbalances. The level of real exchange rates determines the competitiveness of goods, services and financial assets. A competitive real exchange rate allows for a better use of resources in the economy and enhances the international competitiveness of production in the country. An overvalued exchange rate on the other hand, reduces the competitiveness of a country's products and leads to an inefficient use of resources in the economy.

Overvalued exchange rates are usually accompanied by fiscal and balance of payments deficits and higher level of overall aggregate demand in the economy which are likely to lead to macroeconomic instability.

Table IV
CARIBBEAN COUNTRIES - REAL EFFECTIVE EXCHANGE RATE, 1978-90
(1985=100)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Antigua and Barbuda	91.4	95.7	97.1	98.0	101.4	100.0	93.4	89.5	89.1	89.9	86.3
The Bahamas	85.9	90.2	92.7	95.4	97.9	100.0	96.8	95.0	93.4	95.2	91.8
Barbados	78.4	85.4	93.1	101.0	107.2	100.0	94.8	89.2	89.0	92.0	92.0
Belize	74.6	76.0	79.7	90.2	94.7	100.0	89.6	83.5	78.6	80.5	77.2
Dominica	76.9	83.2	86.0	91.3	98.8	100.0	92.9	88.9	83.5	81.7	84.3
Dominican Republic	128.8	130.5	132.3	125.2	91.4	100.0	93.6	78.1	67.7	81.6	84.2
Grenada	72.4	83.7	88.8	93.7	99.9	100.0	93.1	83.7	81.3	85.0	78.3
Guyana	66.0	71.4	80.9	94.9	96.8	100.0	94.8	48.8	61.3	48.7	34.4
Haiti	69.6	71.3	78.5	86.6	91.7	100.0	94.6	82.4	81.5	n.a.	n.a.
Jamaica	156.2	166.4	172.6	162.5	114.1	100.0	107.8	106.3	116.4	n.a.	n.a.
St. Kitts and Nevis	100.0	103.1	106.1	107.1	109.3	109.0	105.1	98.5	92.4	n.a.	n.a.
St. Lucia	85.4	93.7	96.1	97.7	100.7	100.0	94.1	92.4	86.5	88.0	83.7
St. Vincent & the Grenadines	87.5	92.6	95.9	99.4	101.0	100.0	98.4	93.8	88.1	88.2	86.0
Suriname	61.7	69.2	73.6	78.2	89.5	100.0	111.4	124.1	136.5	n.a.	n.a.
Trinidad and Tobago	59.7	62.8	70.5	83.6	95.6	100.0	68.7	64.1	64.9	60.2	60.7

a_/ January, 1990
n.a.: Not Available
Source: World Bank Economic Memoranda

Exchange rate regimes in the Caribbean have recently moved towards more liberalization and more flexibility. This was the case in Jamaica, Guyana and Trinidad and Tobago which in the past operated fixed exchange rates which were maintained through an array of exchange regulations and controls with their attendant negative effects i.e capital flight, parallel markets, etc. All three exchange rates have depreciated with the liberalization of the exchange rate regimes. For example, in Guyana, the US$/G$ exchange rate has decreased from about G$10 to US$1 in 1988 to G$130 to US$1 in 1994.

Trinidad and Tobago floated its dollar in 1993 and removed exchange controls on both capital and current accounts transactions. The TT$/US$ exchange rate moved from a fixed rate of TT$4.25/US$1 in 1992 to TT$5.80/US$1 in 1994 with slight variations. The Dominican Republic has also liberalized its exchange rate regime.

The OECS countries are members of the Eastern Caribbean Central Bank (ECCB) which conducts exchange rate and monetary policies in the countries. The regional currency, the EC dollar, is pegged to the US dollar at a fixed rate. The Central Bank has been able to maintain the stability of the exchange rate through prudent monetary and exchange rate policies and constraints on fiscal policies in member countries.

The only currencies which seem to have appreciated in the second half of the 1980s were those of Suriname and Jamaica whose real effective exchange rates were increasing. The recent liberalization of the foreign exchange regime in Jamaica has served to depreciate the nominal exchange rate of the Jamaican dollar and is likely to decrease its real effective exchange rate as well. The effective exchange rates of all the other Caribbean countries included in Table IV were generally depreciating in the second half of the 1980s.

The macroeconomic management of Caribbean economies went through a difficult period in the 1980s. This was reflected in some of the macroeconomic indicators of a number of countries. High debt to GDP ratios in Guyana, Jamaica, the Dominican Republic and Antigua and Barbuda, high levels of inflation in Jamaica and Guyana and high levels of real effective exchange rates in Jamaica, Guyana and Suriname. However all these countries, except Suriname, have taken and implemented policy decisions to improve the macroeconomic management of their economies. Nominal exchange rates have gone down in both Jamaica and Guyana, inflation decreased substantially in Guyana although it remained high at 15 per cent in 1992 and the fiscal deficits decreased in both Jamaica and Guyana. The continuation of the recently implemented fiscal and exchange rate policies would ensure the macroeconomic stability necessary for growth as well as eligibility to and benefits from NAFTA. Most OECS countries have been able to maintain a relatively stable macroeconomic environment throughout the 1980s and the early 1990s but in the context of preferential arrangements for agricultural products.

B. An open trading regime

An open trading regime could broadly be described as one where trade restrictions are kept at a minimum. It is more often than not export oriented and does not discriminate against foreign trade in favour of domestic production. The overall average incentives offered for import substitution should be broadly equal to those offered for export production. Incentives for exports include any subsidies, tax credits, rebates on duties and other special credits and those for import would include import duties, quantitative restrictions and other import charges.

It is now widely agreed that an open trading regime which encourages both import substitution and exports leads to a more efficient use of resources both foreign and domestic and better rates of economic growth. A protectionist trading regime, on the other hand, introduces distortions in both import substitution and export prices relative to world prices and leads to a misallocation of resources and the inefficient production of goods and services in the economy. In addition, a protected economy invariably has a limited market which is usually too small to allow for any economies of scale production. It also creates the right environment for the creation of monopoly power for firms operating in the protected market and rents for those privileged by the authorities operating trade restrictions.

Trade restrictions are normally effected through the imposition of tariff and non-tariff barriers. The latter includes among others: quotas, prohibitions, licensing, exchange rate allocations, price control measures, technical requirements, variable levies and more recently voluntary export restrictions. Countervailing duties and antidumping provisions which are legitimate under GATT have also sometimes been used to keep imports out.

An open trading regime requires the abandonment of certain trade restriction methods such as quotas, prohibitions, licensing, exchange rate allocations and price controls because of their inefficiency as protectionist measures. Tariffs are usually a superior method of protection because of their transparency but they need to be at moderate levels and of a simple structure. Tariffs and non-tariff barriers are still widely applied and an open trading regime will depend on the extent of the use of restrictions in trade in the economy. It should be noted, however, that restrictions to trade could sometimes be justified under an open trading regime i.e protection of infant industries.

NAFTA seeks to liberalize immediately most of the trade among its member countries and establishes a time limited schedule for the liberalization of the remainder i.e some agricultural products such as corn, beans, etc. The liberalization of trade is done on a reciprocal basis although Mexico is almost always given more time to liberalize some aspects of its trade as in the case of agriculture (see Table V).

TABLE V
AGRICULTURAL SECTOR: TERMS OF TARIFF REDUCTION IN THE FTA
(% of reciprocal imports)

	Reduction for Mexico		Reduction from Mexico	
	from U.S.A	from Canada	for U.S.A.	for Canada
Immediate (1-1-1994)	61	88	36	41
10-15 (1-1-2009)	39	12	60	59
Total (1-1-2010)	100	100	96	100

Source: Ministry of Trade and Industry, Printed Thursday 13 August 1992.

1. Trade policies in the Caribbean

CARICOM countries were expected to have applied a common external tariff. However there have been constant difficulties in the implementation of the tariff. The 1991 CET tariff was applied by eight countries only. The 1993 tariff which sought to accelerate tariff reduction in CARICOM from a structure of 5-35 per cent in 1993 to one of 5-20 per cent in 1998[11] has not yet been implemented by all the countries. Belize is authorized to implement the rate structure two years after the commencement of each implementation period. The OECS countries are allowed to apply rates of 0-5 per cent on non-competing goods[12]. (See Table VI)

[11] The rate for agriculture will be in the range of 0-40 per cent in 1998.

[12] CARICOM. CAR/US/TI 93/2/6. Introduction in 1993 of the revised Common External Tariff (CET)

TABLE VI
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	"	"	"	"
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 D parts I and II	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

The average tariff rates are lower in the OECS countries than in the rest of CARICOM. In addition to the tariffs, CARICOM countries operate a variety of other trade charges which tend to increase the levels of protection in the economies. These include stamp duties, consumption taxes and customs charges. Even with these additional trade charges, the OECS countries, except Grenada, still have a lower average nominal protection than the other CARICOM countries.

Some CARICOM countries still use quantitative restrictions, the most common of which is licensing, making their trading regime more protective. CARICOM also operates a rule of origin system which specifies requirements that products have to satisfy to qualify for common market treatment. Non-CARICOM/CDCC member countries (Suriname, the Dominican Republic and Haiti) operate a variety of trade regimes which tend to be restrictive.

Most CARICOM countries have undertaken trade liberalization programmes over recent years. These programmes, which include both tariff and non-tariff barriers reforms, are at various stages of implementation. The accelerated phasing down of CET has already been put in place in a number of countries.

Jamaica and Trinidad and Tobago are among CARICOM countries which have started implementing the 1993 version of the Common External Tariff. In addition Jamaica has dismantled to a large extent its import and export licensing systems and has withdrawn the import monopoly that the Jamaica Commodity Trading Corporation used to have. Trinidad and Tobago removed all non-oil manufactured items from its imports negative list and is planning to remove import surcharges and stamp duties by the end of 1995.

Guyana is another CARICOM country which, in addition to implementing in the 1993 structure of the CET, has embarked on a wide-ranging liberalization programme. Trinidad and Tobago, Guyana and Jamaica recently removed another impediment to trade by further liberalizing their exchange rate regimes.

In the Dominican Republic, the trading regime has undergone further liberalization but some quantitative restrictions are still in operation and the average unweighted mean tariff including surcharges is still around 26 per cent, and higher than the same average for other Latin American and Caribbean countries (See Table VII.)

In Suriname, quantitative restrictions are still widely spread affecting about 143 items and the range of tariffs applied is between 0 and 400 per cent.

The Common External Tariff of CARICOM, in its accelerated phasing down version, is still higher than the average tariffs in most of Central and Latin America which have already achieved tariffs of a 5-20 per cent range in 1992 compared to the CARICOM CET target of 5-25 per cent in 1998.

In addition to their lower levels of tariffs, most Latin and Central American countries have also removed quantitative restrictions on their trade.

In general, CDCC member countries' trade regimes are still more protectionist than their Central and Latin American neighbours.

Table VII
TRADE REGIMES IN LATIN AMERICA AND THE CARIBBEAN

Country	Year	Imports Subject to Quantitative Restrictions	Unweigthed Mean Tariff including Surcharges	Range of Tariffs including Surcharges
CARICOM MEMBERS				
CARICOM	1991-92	QRs very across countries	20 per cent (excl. surcharges)	0 - 45 per cent
		Negative List	stamp duties	
Dominican Republic a_/	1991	QRs exist	26 per cent	n.a.
Haiti a_/	1990	QRs exist	n.a.	0 - 50 per cent
Suriname a_/		QRs (for 143 items)	n.a.	0 - 400 per cent
CENTRAL AMERICA				
Mexico	1991	20 per cent of local production	4 per cent	0 - 20 per cent
Costa Rica	1992	QRs removed	16 per cent	5 - 20 per cent
El Salvador	1992	QRs removed	16 per cent	5 - 20 per cent
Guatemala	1992		16 per cent	5 - 20 per cent
Honduras	1992	QRs removed	16 per cent	5 - 20 per cent
Nicaragua	1992		16 per cent	5 - 20 per cent
SOUTH AMERICA				
Argentina	1991	8 per cent of local	15 per cent	0. 5, 13, 22 per cent
Belize	1991	production	8 per cent	5 - 10 per cent
Brazil	1990	QRs removed	41 per cent	0 - 85 per cent
	1994	10 per cent of tariff items	14.2 per cent	0 - 40 per cent
Chile	1991		11 per cent	11 per cent
Colombia	1991	QRs removed	6.7 per cent	0, 5, 10, 15 per cent
Ecuador	1991	16 per cent of imports	18 per cent	2 - 40 per cent
Paraguay 1/	1991		16 per cent	3 - 86 per cent
Peru	1992	QRs removed	15 per cent	15 per cent
Uruguay	1991	QRs removed	12 per cent	10, 20, 30 per cent
Venezuela	1993	QRs removed 5 per cent of local production	15 per cent	10 - 20 per cent

1/ Special import regimes enable actual tariffs to be below 15 %
a_/ Does not include surcharges or duties.
Source: IBRD staff estimates

C. Investment

The implementation of NAFTA will substantially liberalize investment in the member countries. The provisions on investment stipulate the broad principles which are to govern the rights of investors from one country who invest in another. These provisions stipulate that investors from one country who invest in another, should not be treated less favourably than those of the host country or those of third countries whichever is more favourable.

Moreover the investment provisions ensure the free movement of capital in the Free Trade Area since each country is required under the treaty to allow all transfers and other international payments related to investment to be freely effected.

NAFTA's investment provisions however provide for a list of exceptions and transitional arrangements to the broad principles of investment liberalization. In the area of financial services, foreign financial affiliates share capital in the various financial sectors in Mexico will be limited and generally low but it will rise over time during a transition period of about six years. Foreign control of Mexican financial institutions will not be allowed. Mexico will limit total foreign investment in banks, security firms and financial holding companies to 30 per cent and in most other financial institutions to 50 per cent. Another important restriction in the area of financial services is the prohibition to foreign financial institutions to issue local currency denominated instruments.

Investment restrictions will also apply to petroleum and petroleum-related activities from exploration to basic petrochemicals, as well as to a range of public utilities and communications industries.

The United States reserves the right to restrict foreign investment in air and maritime transportation, generation and power production and primary dealership in United States government securities.

1. Caribbean policies on foreign investment

Policies on foreign investment are generally favourable in the Caribbean when it comes to the various incentives offered to foreign investors. These incentives, like those in force in the OECS countries, include tax exemptions for up to 15 years and duty exemptions for imported inputs. Some countries like Belize apply the same low corporation tax to both foreign and local investors, others like Montserrat apply a lower corporate tax to foreign companies. Foreign investors are also usually allowed to repatriate earnings from investment (profits and dividends) and the investment itself.

Withholding taxes which are widely in operation in the Caribbean apply at different rates to foreign and local investors in most countries. These taxes are charged on both interest and dividends and tend to be applied to foreign investors at higher rates. Antigua, Grenada and Saint Kitts and Nevis have no withholding taxes. (See Table VIII) The fiscal exemptions are sometimes subject to certain conditions such as share of the domestic value added in gross output and quantity of local employment.

Restrictions to foreign investment in the Caribbean include land use restrictions applied in some countries and sometimes cumbersome investment approval procedures involving many agencies or ministries. CARICOM's industrial programming scheme and its common enterprise regime seek to give advantage to regional investment as against foreign investment and are therefore biased against foreign investment. In Suriname, there does not seem to be any incentive system for foreign investment and procedures in place seem to have been created to discourage such investment.

Caribbean countries have recognized the importance of foreign investment and have joined the competition for worldwide investment funds by attempting to create a welcoming environment for foreign investment. However, there are still problems which need to be overcome. These include cumbersome and lengthy approval procedures combined with weak institutional arrangements (i.e investment offices not adequately staffed to handle the job), unclear procedures, restrictions in certain sectors and stipulations of local participation requirements.

Although the Caribbean investment environment is not overly restrictive, there is need to review some of the restrictions on foreign investment still in operation and continue the economic and trading policies geared towards the achievement of macroeconomic stability, which is probably a more important incentive to foreign investment than those already in operation in the region.

Table VIII
CARICOM TAXATION POLICIES (in per cent)

Country	Corporate Income Tax	Capital Gains Tax	Foreign Land Tax	Exchange Levy	Withholding Tax on Interest Foreign	Withholding Tax on Interest National	Withholding Tax on Dividends/Remittances Foreign	Withholding Tax on Dividends/Remittances National
Barbados	35	No	Yes	1	15	0	10-40	0
Guyana	45	-	-	Yes	Variable		Variable	
Jamaica	35	No	Yes	0	33.3	33.3	33.3	33.3
Trinidad	35	Yes 1_/	Yes	n.a.	30	0	15-20	0
Antigua	40%	-	-	1	0	0	0	0
Belize	45	No	Yes	1.25	25	0	25	0
Dominica	40	No	Yes	0	15-25	15-25	15	15
Grenada 2_/	33.3 (35)	No	Yes	5	0	0	0	0
Montserrat 2_/	40 (20)	No	Yes	0.5	15-20	n.a.	15-20	n.a.
St. Lucia	35	-	-	1	0	0	0	0
St. Kitts	45	Yes	Yes	2	0	0	0	0
St. Vincent	25-45	Yes	Yes	2	0	0	15-20	0

1_/ Only on assets held for less than a year
2_/ Figure in () refers to corporate income tax for foreign companies
Source: Industrial Development Corporations, 1990

D. Environment

The increase in investment and trade which is generally expected from the establishment of a free trade area has effects on the environment. NAFTA includes provisions on the environment but, because of the increasing importance which the issue assumed during the period leading to NAFTA's ratification by the United States Congress, a supplemental agreement on the environment was signed with the specific objective of ensuring that the increase in trade and investment will not take place at the expense of the environment.

1. Environmental provisions under NAFTA

Under NAFTA, the signatories allow each country to choose the level of protection of human, animal or plant life or health which it considers appropriate and can ban imports which, in its view, do not conform with the standards set. The countries are also allowed to set standards which are higher than the internationally recognized standards. Any new regulations or standards envisaged by one member country should however be brought, in advance, to the attention of the other member countries. In addition member countries are committed under the treaty to upward harmonizations of standards and a committee on standard related measures was established to enhance the compatibility of standards in the free trade area and promote consultations and cooperation among member States.

NAFTA gives priority to a number of key international environmental agreements such as the Montreal Protocol on substances that deplete the ozone layer, the Convention on International Trade in Endangered Species of Flora and Fauna (CITES) and the Basel Convention on the control of transboundary movements of hazardous waste and their disposal.

Directly relevant to NAFTA provisions on environment, the treaty's investment provisions call for the imposition of stringent environmental requirements for investment as long as these are applied to both domestic and foreign investors. Member countries are prohibited, under NAFTA, to relax their safety, health and environmental measures to attract or encourage investment.

2. The North American Agreement on the Environment[13]

The North American Agreement on the Environment was signed in September 1993 and stipulates a number of obligations for member countries with regard to the environment. These include ensuring a high level of environmental protection and continuing to improve laws on environmental protection as well as the effective enforcement of these laws.

They also include ensuring the transparency of environmental laws and of access to enforcement. Public access to judicial and administrative procedures are allowed to ensure enforcement of environmental laws. In addition, countries are required to prepare and make public reports on the state of their environment and to promote environmental education, scientific research and technological development.

The North American Agreement on the environment establishes a Commission for Environmental Cooperation (CEC) to study environmental issues, form working groups and solve problems of common concern. This commission will have a secretariat and a governing council whose members are the environment ministers of member countries. The commission also has a trinational joint public advisory committee consisting of five non-governmental advisers from each country.

In addition, Mexico and the United States have a Border Environment Cooperation Commission which intends to work with the local communities, NGOs and affected States to formulate effective solutions to environmental problems. This commission also will decide on the eligibility of projects to be financed by the North America Development Bank which plans to make available some US$2 million in loans and guarantees for environmental infrastructure projects in the border area.

3. Environmental policies in the Caribbean

Caribbean countries have enacted legislation covering various aspects of environmental management. These include legislation regulating public health issues i.e water quality control, land development control, land tenure systems, fisheries control, beach protection, dumping of refuse and forestry management, among others[14].

These regulations are usually the responsibility of various government agencies among which there is not much coordination. In addition the regulations are usually not adequately enforced, weakening environmental protection in the countries.

As a result, environmental problems have arisen in various forms in the Caribbean. These include deforestation and soil erosion (for example, in Haiti and Jamaica), coastal zone degradation (polluted harbours, for example Kingston, Port-au-Prince, Castries), depletion of fisheries and inadequate waste disposal systems in many Caribbean countries.

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[13] The summary of North American Agreement on the Environment is drawn from The NAFTA expanding United States exports, jobs and growth, report on environmental issues, Office of the President of the United States.

[14] For example in St. Lucia, legislation on the environment is reflected in a series of Acts including the Public Health Act 1975, The Land Development and Control Act, 1993, The Litter Act, 1983 and the Fisheries Act, 1987.

There is, therefore, need to update legislation on the environment, widen its coverage and strengthen its enforceability and devise appropriate economic policies such as pricing, taxes and subsidies to reinforce environmental protection. Caribbean countries are now carefully looking at their environmental policies. Some countries are in the process of enacting further environmental legislation to protect the environment and a number of member countries are involved in discussions with the World Bank on the preparations, of Environmental Action Plans.

In line with world trends, environmental management in the Caribbean is taking special importance and getting the attention required from policy makers in the countries. This should help improve such management through the adoption of appropriate policies. It is, however, recognized that this is an area which will require substantial foreign resources since most Caribbean environmental problems are closely linked to their low level of development and income as well as their economic structure.

These low levels of income combined with low levels of technological and scientific capabilities are some of the factors responsible for the weaknesses in environmental management in the Caribbean especially the management of conflicts which sometimes arise between trade and environmental protection. The levels of environmental protection tend to increase with the levels of development and incomes which also increase the levels of pollution and other environmental ills. This explains to a large extent the higher standards of environmental protection existing in developed countries compared to those existing in developing countries including the Caribbean.

Trade liberalization through its efficiency effects favours growth and higher incomes and the creation of wealth which could be devoted to environmental protection. Trade and investment liberalization provides access to higher levels of technology which could help better protect the environment (more energy efficient and less polluting production processes). In their efforts to attain higher levels of incomes the challenge for the countries of the region is to strike a balance between trade and environmental protection. This could be done through the adoption of policies already mentioned i.e rules and regulations and taxes and subsidies as well as assistance from the developed world especially with regard to those environmental problems, such as global warming, which are international by nature. The NAFTA seemed to have recognized the disparity in environmental protection between Mexico and the United States and oriented its environmental provisions towards the improvement of environmental protection in Mexico.

E. Intellectual property rights

Intellectual property rights constitute an important component of the NAFTA which seeks to provide protection for trademarks, copyrights, patents and trade secrets. The North American Free Trade Agreement commits each of the signatories to provide appropriate protection through the enactment of laws on intellectual property rights reinforced by effective enforcement.

Intellectual property rights cover a wide range of products and processes including industrial and agricultural designs, including beverage and food products, pharmaceuticals, computer programmes, sound recordings, satellite transmissions, etc.

Protection of intellectual property rights in the Caribbean is in many countries outdated. Copyrights are still protected by the United Kingdom Copyright Act of 1956 in Guyana and Saint Lucia. Laws on trademarks and patents are either outdated or non-existent. Few countries have acceded to the international conventions on protection of intellectual property such as the Universal Copyright Convention, the Berne Convention for the protection of literary and artistic works, etc.

However most countries are now drafting up-to-date legislation on intellectual property rights. This is the case of Saint Lucia whose law is expected to be passed by Parliament before the end of 1994. Models on trademarks and patent laws are being considered and a law on these aspects of intellectual property rights will be prepared soon. Saint Lucia became a member of the World Intellectual Property Organization (WIPO) in 1993 and acceded also to the Berne Convention. Guyana is actively considering joining WIPO and updating its intellectual property rights laws. Grenada and Saint Vincent and the Grenadineshave passed copyrights bills recently.

F. NAFTA and integration in the Caribbean

NAFTA seeks to eliminate barriers to trade and investment in member countries. In order to achieve this, the treaty provides for the progressive elimination of these barriers subject to various exceptions to the general terms and conditions of the agreement. Given the importance of the United States market to CARICOM countries trade and investment, the agreement is likely to have multiple effects on trade and investment in the countries of the region. These effects were already considered in a previous paper.

It is clear that trade liberalization has recently accelerated in a number of CARICOM member countries and this seems to have had a positive effect on trade policies in CARICOM as a whole in the sense that regional policies seem to be shifting towards greater liberalization i.e accelerated phasing down of the CET.

The NAFTA negotiations and the coming into effect of the treaty early this year seem to have reinforced this trend among CARICOM member countries. This may have the effect of speeding up further liberalization of regional trading and investment policies.

If this internal CARICOM process is successful, the regional integration movement may become more open and better able to respond to the ongoing globalization of trade and investment. On the other hand, the push for further liberalization from within CARICOM may put severe strains on the integration movement because of differing timetables, the consequence of which may be unpredictable.

The recent pronouncements with regard to allowing individual member countries to negotiate separately for NAFTA, if implemented will mean that the countries within NAFTA will have to allow NAFTA members access to their markets in accordance with the terms agreed during negotiations for entry. That access might be greater or lesser than currently in force with other CARICOM member countries, barriers to investment also will have to be adjusted in accordance with the agreed terms for investment. It is however most likely that there will be more competition in the markets of these countries for CARICOM produced goods and services. It is also likely that these countries will have better access to NAFTA countries' markets than other CARICOM countries, most probably under better terms than those obtaining under CBI and CARIBCAN. Such a situation will put to the test the commitment to CARICOM of those countries which chose to enter NAFTA.

Since entry to NAFTA will require a period of negotiation, it is during that period that those countries are likely to start finding it difficult to reconcile their negotiating positions with regard to NAFTA with their obligations under CARICOM. It may well be that this period could also allow a new CARICOM position on NAFTA to evolve.

CONCLUSIONS

The fulfilment of the criteria outlined for eligibility to NAFTA will result from sound economic management and should be pursued regardless, because of their potential positive effects on growth and development. Indeed most Caribbean countries have been pursuing, either unilaterally or under World Bank, IMF structural adjustment programmes, policies designed to improve their economic management.

Some of the countries managed to maintain a relatively stable macroeconomic environment over recent years while others have run into severe macroeconomic disequilibria impacting negatively on their macroeconomic environment. Trading and investment regimes in most countries were relatively restrictive and the protection of intellectual property rights was almost non-existent in most of the countries. Protection of the environment was also rather weak and uncoordinated. The latter aspects of the eligibility criteria trade and investment regimes, intellectual property rights and environmental protection also varied amongst the countries with some more advanced than others.

However, policies to keep fiscal and balance of payments deficits and inflation within sustainable limits, as well as those designed to further liberalize trade and investment are being implemented in most of the countries. In addition, the Common External Tariff of CARICOM has been recently revised to accelerate its progressive decrease. Policy decisions have also been taken to make the exchange rates more competitive. Intellectual property rights whose protection was largely ignored are now receiving the required attention, and policy decisions are being taken in most of the countries to remedy the situation. Environmental management is another area which has been receiving priority treatment from Caribbean countries.

It is to be noted however that more importance seems to be given to intellectual property rights and bilateral investment over other criteria judging by the widely believed view that Jamaica and Trinidad and Tobago are better prepared than the rest of the countries to enter the NAFTA. These two countries are more advanced in the process leading to the NAFTA membership than the other countries, because Jamaica signed an intellectual property rights agreement and a bilateral investment treaty with the United States and Trinidad and Tobago is in the process of entering into such agreements with the United States. These two countries also seem to be more committed to further liberalizing their trading policies and have formally notified the United States of their interest to be included in the list of countries to be considered for membership in the NAFTA. However, it is not yet clear how the United States will proceed from now on and what are the positions of Canada and Mexico with regard to further trade liberalization in the Western Hemisphere. For example it is not yet known if the United States, the main economy in the NAFTA, is to negotiate free trade agreements with interested individual countries or if any new negotiations are to include Canada and Mexico. Since it is not practical to negotiate with many countries at the same time and given the number of countries interested in NAFTA, it is not yet clear which country or countries are to be invited to negotiate first nor is it clear if they will be allowed to dock into NAFTA or negotiate new agreements. Possible access to the NAFTA is not limited to countries of Latin America and the Caribbean and it may well be that countries from outside the hemisphere may also be interested to join.

The ability and willingness of the countries to continue the implementation of the policies they have embarked on and improve them further will strengthen the credibility of these policies and bring about the desired positive economic effects. At the same time, this will also serve to fulfil the criteria outlined for eligibility to NAFTA, and enable the countries, if they chose and are accepted to negotiate entry into NAFTA, to be in a better position to benefit from the Free Trade Area.