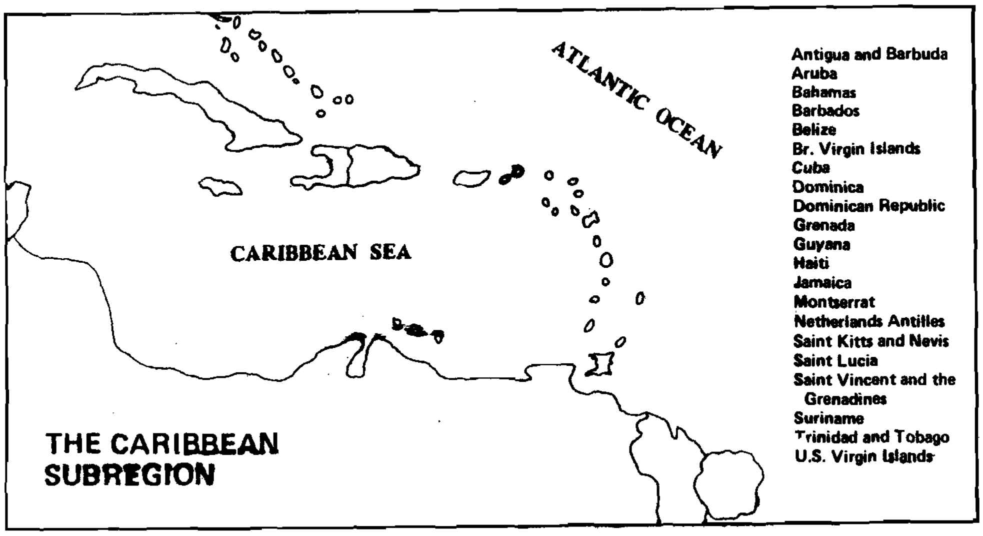
CARIBBEAN DEVELOPMENT AND CO-OPERATION COMMITTEE



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SOME POSSIBLE IMPLICATIONS FOR CDCC MEMBER COUNTRIES OF RECENT GLOBAL AND REGIONAL DEVELOPMENTS

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INTRODUCTION

The global political and economic landscape is undergoing profound structural change, a fact which is likely to have far-reaching effects on the economic performance of developing countries, including member countries of the Caribbean Development and Co-operation Committee (CDCC). The countries of Eastern Europe have embarked on fundamental economic reforms to transform their economic systems. The countries of the European Community (EC) are far advanced towards the establishment of their single market in 1993. The United States and Canada now operate a free trade agreement between their two countries and have begun discussions towards the establishment of a free trade area which will also include Mexico. The United States has proposed the creation of a hemisphere-wide free trade area under its Enterprise for the Americas Initiative (EAI). The countries of Eastern Asia are reinforcing their trade and economic relations in the face of the changes taking place in the other regions of the world. In addition to these changes, the ongoing multinational trade negotiations include a number of proposals which, if brought under the rules of the General Agreement on Tariffs and Trade (GATT), will bring about significant reforms to the international trading system.

These developments are taking place at a time when member countries of the CDCC are still very dependent on tourism and the export of primary commodities, despite recent efforts to diversify their economies. A significant share of the exports of the region benefits from preferential arrangements with the United States, Canada, Western Europe and Eastern Europe, which are all engaged in the structural changes taking place. These changes are bound to affect the trading relations of CDCC member countries.

These changes are taking place at a time when the economic management of CDCC member countries is being severely tested. Most of them are experiencing balance-of-payments problems, diminishing external financial inflows and debt-servicing problems. A number of countries with severe balance-of-payments deficits are under International Monetary Fund (IMF)/World Bank structural adjustment programmes. The structure of Caribbean economies may constrain their speed of response to these global and regional developments, and their ability to deal with the new challenges and take advantage of whatever opportunities these changes may present.

This paper will review these global changes with a view to examining their possible economic implications for CDCC member countries, and ways in which these countries have been responding to these changes through joint or co-ordinated action.

increase in the efficiency of production in the EC brought about by increased competition and through the proposed reforms of its Common Agricultural Policy (CAP). In general, sugar production in the Caribbean has been falling while its costs have been on the increase, two characteristics which do not augur well for sugar exports to the EC. Even at existing favourable prices, sugar production in the Caribbean ACP countries has been falling; this suggests that productivity will have to increase significantly if the countries are to fill their quotas in the EC market.

The export of rum by ACP countries to the EC is subject to an overall volume quota, which is then divided into national EC quotas. The United Kingdom market has been assigned the largest quota in the Community and it is mainly to that market that Caribbean rums have been exported. The new protocol under the Fourth Lomé Convention will phase out the ACP quota effective 31 December 1995. In the meantime, rum producers are benefitting from substantial annual increases in the quota which will provide an opportunity for Caribbean rum producers to solve some of their present production and marketing problems and establish an efficient industry able to withstand the competition in the EC market from 1 January 1996.[1]

The existing preferential treatment in the EC market will be eroded through the principle of mutual recognition i.e. products recognized by at least one country will be allowed to freely circulate throughout the Community. Spirits made from products other than cane sugar, for example, German potato-based rum could provide competition to genuine rums from the Caribbean. This notwithstanding, the prospects for rum in the single market appear to be good if production and marketing are improved.

There may be scope for member States to benefit from the European single market. The increase in demand stemming from the projected increase (as a result of the single economy) of 2.5 per cent to 19 per cent in the Community's GDP in the medium term should provide potential for an increase in exports from CDCC member countries.[2] This additional economic growth may also increase the number of potential tourists to CDCC member countries. The extent to which member States can take advantage of these opportunities will depend on their ability to diversify into products for which there is increasing demand, and which are of the highest quality; and on the extent and quality of their efforts

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[1] The Courier, (1990) LOME IV CONVENTION, Protocol 6, Brussels:The ACP-EEC Secretariat, No. 120, p.150.

[2] Projected growth figures from Paolo Ceccini, (1988) The European Challenge: 1992 Aldershot: Wildwood House, Mimeo.

at production. CDCC beneficiaries can tap into Lomé's financial and technical co-operation mechanisms to assist them in their efforts to diversify their economies and increase the efficiency of their production.[3]

The prospect of a large, dynamic, technologically sophisticated single market has already attracted substantial investment by EC, United States and Japanese firms. CDCC members which benefit from trade preferences under the Lomé Convention may be able to attract companies seeking favourable access to the European market provided that the preferences accorded to Lomé countries remain in effect.

THE WIDER EUROPE

Private investment is perhaps one of the areas of potential competition between CDCC member States and the newly democratic countries of Eastern Europe. The political and economic liberalization of Eastern Europe has made available to foreign investors a pool of knowledgeable workers whose wages are internationally competitive. Wage rates in Hungary and Poland are less than $2 per hour and about $3 in Czechoslovakia and their locational advantage next to Western European markets and the Soviet Union may give them an advantage over many developing countries.[4] Furthermore, foreign investors can acquire Eastern European firms at attractive prices. While it is true that transportation, communications and other aspects of the investment environment must be upgraded, these considerations may be outweighed by the availability of relatively low-cost unskilled and skilled labour and the presence of a pool of scientists, engineers and mathematicians with the knowledge skills necessary to function in today's high tech world.[5] However, these advantages have to be qualified by the fact that the radical political and economic changes taking place in Eastern Europe and the social

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[3] Trinidad and Tobago and the Bahamas have been the most successful in increasing manufactured exports to the E.C., petrochemicals in the case of the former and hormones in the case of the Bahamas. Christopher Stevens, The European Single Market: Implications for Caribbean Manufacturing and Agriculture, London: Overseas Development Institute, 1990.

[4] Auerbach, Stuart, (1990) "East Europe competing for western jump-start," Washington Post, 7 January.

[5] Griffith, Winston, (1990) "Globalization, Restructuring and Third World Development," Paper presented at the Fifteenth Annual Caribbean Studies Association Conference in Trinidad and Tobago. May 22-26.

upheavals in some of the countries are not conducive to private foreign investment and are likely to continue at least in the medium term, because of the complexity of the economic problems of that part of Europe.

With the re-integration of the former East and West Germany and the offer of trade concessions by the Group of 24 to the newly-democratic countries of Eastern Europe there could be an erosion of trade preferences for competing ACP products.[6] For example, Trinidad and Tobago has recently recorded impressive growth in manufactured exports to the EC, particularly in iron and steel products, chemicals and fertilizers, which are also significant exports for Eastern European Bloc countries. Within the recent past, Trinidad and Tobago was the only major supplier outside the EC that faced no tariff on ammonia exports. In the case of steel products, it was one of only four countries (including Austria, Sweden and Switzerland) to have duty-free access to the EC market.[7] The extension of trade concessions to other countries, especially those with a locational advantage could possibly affect Trinidad and Tobago's exports to the EC market.

On the positive side, the Caribbean may be in a position to exploit new opportunities in Eastern Europe. The integration of Eastern Europe into the global economy will result eventually in a rise in growth and disposable income in the global economy; and presumably to increased demand for the products and services of developing countries. There is need for further research into possibilities for increasing the trade between Caribbean and Eastern Europe.

The preoccupation of the major world powers with the changes taking place in Eastern Europe, and the commitment of financial resources to the restructuring of these economies by Organisation for Economic Co-operation and Development (OECD) countries and multilateral lending institutions, have given rise to concern about the marginalization of the Caribbean in respect of resource flows.

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[6] The Group of 24 was set up in July, 1989 and consists of developed countries. Its primary aim is to co-ordinate aid and investment to the East European countries in an effort to support the incipient changes in their economies.

[7] World Bank, (1988) Caribbean Exports: Preferential Markets and Performance, Report No.7207-CRG, May 27.

Already during the period 1980-1988, there was a decline by over 50 per cent in official flows to member States.[8] While there was a substantial increase in grants, bilateral loans plummeted from US$544.9 million in 1980 to US$16.1 million in 1988.

In the context of serious debt-servicing problems experienced by some countries and declining foreign investment, there is some justification for this concern. Anxiety was not allayed when in early 1990 a proportion of the aid destined for the Caribbean was diverted to Eastern Europe. Jamaica sustained the biggest loss when US$25 million already earmarked for that country was reallocated to Poland.

With regard to Official Development Assistance (ODA), inflows to CDCC members fluctuated between US$1,457 and US$1,590 over the period 1985-1988. Over 50 per cent of ODA to member countries went to Cuba and 98 per cent of that assistance came from the Soviet Union and Eastern European countries. The restructuring in the Soviet Union and Eastern Europe, resulting both from the economic crisis of the former and the democratization of the latter, may have a significant impact on aid and trade with Cuba.[9]

Rouble-based barter agreements exchanging sugar, nickel and citrus for machinery and food from Eastern Europe are being replaced by transactions in convertible currency based on world prices. In the context of these structural changes, Cuba may have to re-examine its economic and trade relations with a view to taking advantage of the new world economic situation. In this connection, the recent opening up of the tourism sector of the Cuban economy to foreign participation and the considerable interest shown by foreign investors in that sector is to be noted.

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[8] United Nations ECLAC, (1990) Resource Flows to the Caribbean in the 1980s, Port-of-Spain: ECLAC, LC/CAR/G.308. p.11. The countries included are: Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Dominican Republic, Grenada, Haiti, Jamaica, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago.

[9] The trading bloc COMECON accounted for more than 70 per cent of total Cuban trade in 1989.

THE MULTILATERAL TRADE NEGOTIATIONS

The Uruguay Round of the multilateral trade negotiations under the auspices of GATT, was launched in 1986 against the backdrop of protectionism and increasing trade imbalances, particularly among developed countries and the continued debt crisis in developing countries. This eighth round of negotiations has been particularly difficult given the enormous differences between the major agricultural exporting countries on the question of agricultural subsidies and the new additions to the agenda such as trade in services, the trade-related aspects of intellectual property rights and trade-related investment measures.[10]

For the most part, the interests of the majority of CDCC members are distinct from those of other developing countries. The bulk of the trade of the former falls under special preferential trading arrangements such as the Lomé Convention, the Caribbean Basin Initiative (CBI), the Canada-Caribbean Trade and Economic Co-operation Agreement (CARIBCAN) and the Council on Mutual Economic Assistance (CMEA), so that there is no real incentive to agree to a reduction in tariffs and other forms of liberalization.[11] With respect to tropical products of relevance to CDCC member States such as bananas, mangoes, pineapples, coffee, cocoa, tropical woods, rice, tobacco, coconut, spices and cut flowers, the reduction of tariff and non-tariff barriers will result in the erosion of preferences for Caribbean products. ACP members of CDCC have asked the EC to limit liberalization of trade in these products, but it is not yet clear what the outcome of this request will be. The reduction or elimination of internal taxes in the Community and the relaxation of exacting phytosanitary standards in the United States, particularly on fruit, may redound to the benefit of the region. The opening of the restrictive Japanese market is another new opportunity which the changing global situation may provide.

The trend is towards a more liberal global trading system and the preferential treatment of CDCC member countries will be gradually eroded, especially as the United States and the EC are seeking easier access to Latin American and Asian markets and may have to allow, in return, the products of these developing countries into their markets. Since some of the countries of Latin America and Asia are at a similar stage of development to some CDCC

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[10] Developing countries fought against the inclusion of new items because they argued that they were being asked to submit to GATT discipline and at the same time to adopt trade liberalization policies in areas like services where they were at a disadvantage.

[11] "The Uruguay Round of Multilateral Trade Negotiations: A Further Note by the Secretariat on Some Recent Developments," CARICOM Secretariat, CCM 90/35/15, March 16, 1990.

countries, they may seek the same preferential treatment as that accorded to CDCC countries. It is extremely uncertain whether arrangements can be made for special treatment for the exports of any of these economies.

In respect of agriculture, the liberalization of trade may result in a decrease in price subsidies of agricultural commodities, which could lead to an increase in the prices of these commodities on the international market and translate into higher import bills for CDCC food importers. With respect to goods of export interest, the reduction of subsidies and quantitative restrictions in markets of the major industrialized countries and other developing countries may improve the competitiveness of exports from CDCC member countries.

Trade in textiles and garments is likely to be returned to GATT rules after a transitional period of 10 years. Despite the willingness to support the position of other textile and clothing exporters, beneficiaries under Lomé and the United States' special access programmes (in particular, Haiti, the Dominican Republic, Belize, Barbados and Jamaica), may be adversely affected. These countries have benefitted from the fact that textile exporters, particularly from Asia, have sought to circumvent quotas in major markets by investing in "cut, make and twin" (CMT) production in Jamaica and other CDCC countries.[12]

Other countries, particularly those with a long history of garment production, cheap fabric and designs, will be the ones ideally placed to benefit from the dismantling of quotas. In a non-preferential situation, Asian investors will not gravitate to the region and CDCC member countries will have to increase the efficiency of their garment production to be able to compete in an open market.

The current GATT negotiations include, for the first time, trade in services. It was felt by the major industrialized countries that such an important sector contributing, on average, 61 percent to their GDP in 1986, should come under a multilateral regulatory framework that would provide for free trade in services. The main proposals of the industrialized countries include the right of establishment of a foreign-controlled service enterprise, national treatment of that enterprise and most-favoured-nation

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[12] Between 1981-1986, USTS 807 exports under US special access (TSUS 807) programmes grew by 22.5 per cent per annum in the Dominican Republic, 28.1 per cent in Haiti, 8.7 per cent in Belize and 32.6 per cent for Jamaica. In 1985, 99.3 per cent of Belize's 807 exports were textiles and clothing, 84 per cent for the Dominican Republic, 53.5 per cent for Haiti and 95.2 per cent for Jamaica. Source: World Bank, Caribbean Exports: Preferential Markets and Performance, Report No. 7207-CRG, May 27, 1988. p.18.

treatment or non-discrimination between services from competing States. The industrial countries are not, however, united in their positions on services and have displayed differences in the areas of transport, finance, telecommunications and other services.

Three member countries of the CDCC, Cuba, Jamaica and Trinidad and Tobago, are parties to the Framework for Trade in Services developed by the Latin American Economic System (SELA).[13] These member States agree with the concept of most-favoured-nation treatment, but they demand progressive liberalization as opposed to immediate access to their markets. In addition, they resist national treatment and insist on derogation from reciprocity to allow for the development of their national services sectors.

Because of the importance of services, particularly tourism and offshore financial services, to many CDCC members any agreement reached on services will have a vital impact on them.[14] The liberalization of trade in services will favour the most efficient exporters of services and force these industries to become more competitive internationally. This should not cause much dislocation since, to a large extent, trade in the tourism sector, the largest service industry in the region, is relatively open and should be able to compete on world markets. Liberalization of services such as telecommunications, banking, insurance, consultancies and construction may benefit CDCC member countries in two ways. If there are CDCC countries which have a competitive advantage in some of these service industries, they will have easier access to third countries' markets and will be able to expand their market shares. For those countries which are mainly buyers of services, a more open trade in services will bring down prices and reduce their import bills.

With regard to intellectual property rights, the industrial countries which are large exporters of technology and prestigious trademarks would like to safeguard such property rights under a GATT framework. This might lead to a more expensive transfer of technology, which is essential for economic progress in developing countries, a factor which has to be taken into account in the negotiations on this subject. Also championed by the industrial countries are trade related investment measures, which seek to

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[13] The countries that are party to this framework include Brazil, Chile, Colombia, Cuba, Honduras, Jamaica, Nicaragua, Mexico, Peru, Trinidad and Tobago and Uruguay.

[14] In the Caribbean, services contribute between 50-80 per cent to Gross Domestic Product. ECLAC, The Evolution of Services in Caribbean Economies, 1991.

liberalize some of the rules applied to foreign investors in some countries. These rules include the obligation to buy local inputs, and foreign exchange restrictions which are perceived to hamper the smooth functioning of foreign business.

The Caribbean's drive for foreign investment has already served to put in place a wide range of incentives to foreign investors and a set of liberal rules with regard to foreign investment. In some CDCC countries, these rules might already be as liberal as any that may be required under a new agreement on foreign investment. The GATT negotiations, which were suspended on 7 December 1990 because of major disagreement on agricultural trade reforms between the EC and the United States, restarted in February 1991 following the proclaimed readiness of the EC and the United States to work out a compromise on the liberalization of trade in agriculture and the exclusion of certain services from GATT rules. A clearer appreciation of the implications of the Uruguay Round for CDCC countries must await the outcome of these negotiations.

ENTERPRISE FOR THE AMERICAS INITIATIVE

The recently announced Enterprise for the Americas Initiative (EAI), which has at its centre the formation of a Free Trade Area comprising the Americas is tribute to the fast moving changes taking place in the world economy. Already nervous of "Fortress Europe" after 1992, the possible integration of the rest of Europe into the European single market and the intense competition with Japan and other Asian countries, the United States is moving to secure for itself wider regional markets. It is also a recognition that its own growth has been affected by decreasing imports from developing countries of the hemisphere because of their debt crises, import compression and depressed economic growth.

The EAI includes three interrelated components: trade, investment and debt reduction. The trade component aims, in the medium- to long-run, at the establishment of a free trade area in the Western hemisphere, but in the short run it aims at putting in place a series of trade and investment agreements, which would serve as a framework for the negotiations of specific trade issues between individual countries or groups of countries in Latin America and the Caribbean on the one hand, and the United States of America on the other.

The investment component proposes to deal with the promotion of investment reforms in the countries of Latin America and the Caribbean through an Inter-American Development Bank (IDB) investment sector loan programme financed from IDB resources, which will assist countries in carrying out actual investment reforms including privatization. It also seeks to support these investment

reforms through the establishment of an Investment Fund administered by the IDB, to which the United States will contribute US$100m. annually for a period of five years. Additional contributions to this Fund will be sought from other industrial countries and the funds mobilized will be used to finance technical assistance, business infrastructure development and training.

The debt component which will be administered by a special facility, to be established at the United States Treasury, will seek to reduce official Latin America and Caribbean debt owed to the United States, conditional on the implementation of structural adjustment programmes approved or supported by the IMF and/or the implementation of World Bank or IDB sector loan programmes and/or, where applicable, a negotiated agreement with commercial banks on non-concessional loans.

Although the details of the EAI are still being worked out, its overall outline allows the suggestion of an approach to the three elements of the initiative and an assessment of some of the likely effects on the trading and economic relations of the region. With regard to the overall approach to the proposed negotiations under the Initiative, it may be more advantageous for the countries to adopt common positions on the issues to be negotiated or even negotiate as a group. Such an approach would strengthen their bargaining positions and make for better preparation for these negotiations, uniformity of treatment of the countries involved, and ensure uniformity of approach to the negotiations.[15]

<u>Trade</u>

The Initiative seeks the conclusion of trade and investment ("framework") agreements with individual countries or groups of countries of Latin America and the Caribbean. Such agreements may present an opportunity for CDCC member countries to negotiate with the United States for the easing or elimination of tariffs and non-tariff barriers, currently affecting their exports to the United States of America. For Caribbean countries, beneficiaries under the CBI and the special access arrangements, goods excluded from preferential treatment under these agreements, and those subject to quotas such as textiles and sugar, or subject to voluntary export restraints such as steel, should perhaps be made primary subjects for negotiation with the United States with a view to gaining easier access for these products to the United States

[15] Statements by United States officials appear to suggest that the United States would be willing to negotiate with individual countries or groups of countries; CARICOM countries have already agreed to approach the negotiations on a CARICOM group basis.

market. For those CDCC member countries which are not beneficiaries under any preferential trading arrangement with the United States, the proposed trade and investment agreement offers an opportunity to participate more actively in trade with the United States and other countries.

In return, the United States is likely to seek greater access to Caribbean markets. For CDCC member countries, which are members of CARICOM, such demands have to be viewed within the context of the CARICOM agreement, especially taking into account the recent entry into effect of the CARICOM common external tariff. In addition, the proposed trade and investment agreement will allow countries which are not members of CDCC and which may have competing products, to seek to obtain the same preferential treatment which CDCC member countries enjoy. The reaction and approach of Canada, which already has a free trade agreement with the United States of America, to the possible trade deals between the United States and Caribbean countries under the Enterprise for the Americas Initiative may impact trade relations between Canada and those CDCC member countries which are also beneficiaries under CARIBCAN. Canada may, for example, want to negotiate further access to Caribbean markets, so that its exports to the region and its investment in the region are not less favourably treated than those of the United States of America. The European Economic Community might do likewise. Caribbean Lomé Convention signatories may wish to try to safeguard their preferential treatment under these schemes, while at the same time restructuring their economies to be less dependent on preferential treatment.

The weaknesses of Caribbean economies compared to those of the United States or some of the Latin American countries which qualify under the Initiative, may be taken into account in the negotiation of the envisaged trade agreement to allow for non-reciprocal trade concessions for the main exports of Caribbean countries if only on a temporary basis.

It is probable that the United States will put the issues of intellectual property rights, investment and trade in services on the priority agendas to be discussed after the proposed trade and investment agreements have been signed. All three issues are included on the agenda of the ongoing GATT negotiations and the results of these negotiations will affect those taking place under the Initiative. It may be in the interest of CDCC member countries to seek to ensure that agreements on these new issues take into account the importance of the acquisition of technology in the economic growth and development of the countries and the need for increased foreign investment. Trade in services, especially tourism and offshore banking, constitute a major part of Caribbean trade in which certain countries have a comparative advantage which could be better exploited with freer trade. In most services, however, the United States may be more competitive.

Investment

The investment component of the Initiative seeks to promote investment reforms which would seek to liberalize investment rules and regulations in the beneficiary countries. It appears also that the Initiative would seek to put emphasis on the privatization of industry.

Foreign investment has been given greater attention with the advent of the debt crisis, the decrease in bank lending and the increase in interest rates, as it was assumed that foreign investment could provide the necessary finance to fill the gap left by the decrease in commercial bank lending, with the added advantage that it was not debt-creating. Based on this assumption, many developing countries adopted rules and regulations designed to attract foreign investment. In this context, many Caribbean countries, especially those with debt servicing problems, have taken steps to liberalize their policies on investment and offer various incentives to foreign investors. Experience suggests, however, that measures to encourage investment have not been sufficient to attract the volume of foreign investment expected.

Caribbean countries may be well advised to explore the possibility of obtaining concessionary financing under the facility, to correct infrastructural deficiencies in their ability to attract foreign investment. For example, some countries may be interested in industrial training in areas such as data processing and in receiving finance for the construction of factory shells. Since the Initiative itself recognizes the investment infrastructural needs of the target countries, these countries might wish to seek to take advantage of this provision.

A special mechanism will have to be devised to ensure that those countries which are not members of the managing institution, the IDB, do benefit from the proposed funds.[16]

The volume of resources proposed so far for the investment fund of the EAI is a modest contribution to the promotion of investment in the hemisphere, because of the number of countries which could potentially benefit from the Fund and the size of their financing requirements. Although the volume of resources available

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[16] CDCC member countries which are not members of the IDB are: Antigua and Barbuda, Belize, Cuba, Dominica, Grenada, Saint Kitts/Nevis, Saint Lucia and Saint Vincent and the Grenadines. CARICOM countries have recognized the Caribbean Development Bank as a possible intermediary mechanism on behalf of those countries which are not members of the IDB.

for investment and investment promotion is a very important consideration, an economic policy framework, conducive to efficient production and export development is even more important and more likely to attract foreign investment than financial resources per se.

Debt

Under the debt component of the EAI, the United States proposes to reduce principal and interest payments of PL480 and AID's debt, and sell or reduce the debt owing to the Export/Import Bank and the Commodity Credit Corporation, provided that the proceeds of such sales are used for debt/equity or debt for nature swaps. The Initiative also includes the possibility of the cancellation of the latter type of debt.

The reduced interest payments on these new obligations will be paid in local currency into a local account and the proceeds of these interest repayments will serve as the environmental fund, which will be governed by an environmental agreement that the United States proposes to enter into with the countries concerned. This aspect of debt reduction will only apply to United States Agency for International Development (USAID) and PL480 debt. Debt due as a result of Export/Import Bank and Commodity Credit Corporation transactions can be either cancelled, reduced, or sold under the Initiative. The sale of these debts will be conditional on their use for debt/equity or debt-for-nature swaps in the debtor countries, and the United States undertakes to consult the country concerned before the sale is effected.

The magnitude of the debt owed to the United States and its breakdown by debtor country is not yet known[17]; nor at this stage is the extent of the proposed reduction of debt to the United States. It is also not yet known the extent to which the proposed debt reduction will adversely impact future aid flows from the United States. These as yet unknown elements of the proposed debt reduction scheme make it difficult to assess the impact of the proposed scheme on the debt servicing burden of the CDCC member countries.

What is known is that most of the debt is owed to official creditors and it is estimated that most of this debt is owed to multilateral institutions. This suggests that the magnitude of the proposed debt reduction on the overall debt of CDCC member countries is not likely to be significant. It is, nevertheless, a welcome move which is in accordance with action taken recently

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[17] The Bush Enterprise for the Americas Initiative: A preliminary analysis by the SELA Secretariat, 1990.

by the international financial community[18] to reduce or cancel the official bilateral debt of developing countries in order to enhance their chances of regaining credit-worthiness and successfully restructuring their economies. This proposal by the United States might lead to debt reduction or debt cancellation by other bilateral donors.

The fact that the proposed debt reduction scheme is subject to conditionalities including IMF-approved or supported structural adjustment programmes should not be a deterrent to interested countries which are already implementing IMF structural adjustment programmes. There may be some countries, however, for which this could be a very important consideration and on which a considerable amount of discussion may take place.

The proposed use of reduced interest rate repayments on PL480 and AID debt for environmental projects is a positive approach, which could be improved if the principal repayments on these types of debt are also paid in local currencies and used for environmental projects or to strengthen the investment promotion capabilities of the target countries[19].

THE CARIBBEAN RESPONSE

The developments discussed above did not suddenly emerge into the world scene unannounced and completely unanticipated. They are more in the nature of significant discontinuities of history rather than revolutionary changes. Correspondingly, the Caribbean's "response" is only in some respects a response to the specific global initiatives; it is really a continuation of an on-going process of coming to grips with the imperatives of economic and social development for small, dependent, vulnerable and fragile economies. Recent global developments would have endowed the process with a greater sense of reality regarding the position of small developing countries, and with a greater sense of urgency about taking appropriate action. It is well known that national and regional policy initiatives in the Caribbean are most times driven by external developments.

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[18] The Toronto terms for Low Income Countries and the cancellation by France, Germany, Canada of debt owed to them by Low Income Countries.

[19] CARICOM countries have proposed that the scope of environmental projects be defined to include health and education.

Over the past decade Caribbean countries have taken policy measures with a view to their improved economic and social performance, and often, in response to changes in the external economic environment. These policy measures have taken on special significance over the last two years because of developments in Eastern Europe, progress towards Europe 1992 and the proposed EAI. These measures can be broadly categorized into those taken at national levels and those taken at wider regional levels.

<u>**Action at national levels**</u>

At their respective national levels, CDCC member countries have adopted economic policy measures intended to restructure their economies with a view to improving their performance in the context of the changing economic environment. At the regional level, the response has involved mainly the English-speaking countries and comprises two major elements: rationalizing of common market arrangements and a searching, comprehensive examination of future directions and options for the Caribbean Community.

Production diversification has become rather more urgent in the light of post-1992 uncertainties. Spurred on in part by preferential trade access arrangements, there has been an increase in non-traditional exports: there has been an increase in the exports of products such as avocado, mango, passion fruit, root crops and cut flowers from Jamaica and countries of the Organization of Eastern Caribbean States (OECS); toys and assembled electronic items from Haiti, the Dominican Republic, Barbados and Saint Kitts and Nevis; the garment industry has grown tremendously in the 1980s, particularly in Jamaica, Haiti, the Dominican Republic, Belize and Saint Lucia.

There has been a noticeable effort in some CDCC member countries to diversify their economies away from an over-dependence on the agricultural sector. This has led to greater attention to sectors such as manufacturing, tourism and financial and other services. There has also been an attempt to diversify within the agricultural sector, away from an all-encompassing over-dependence on traditional crops, such as sugar and bananas, towards increasing attention to non-traditional agricultural products, such as cut flowers, vegetables and exotic fruits. Countries have paid attention to the development of their tourism sectors, adding

capacity, improving plant and tourist-related infrastructure, providing training and paying attention to marketing. As a consequence, tourist arrivals have increased substantially in some countries: Aruba, Belize, Curacao, Dominica, the Dominican Republic, Grenada and Jamaica.[20]

Very noticeable in the past decade were the efforts of countries to introduce a larger measure of economic discipline into their national economic management. In some countries this was related to financing relationships with the World Bank, the IMF and the IDB. Or to bilateral aid relationships with USAID. In certain other countries fiscal and economic discipline was self imposed - possibly encouraged by the looming promise of the international financial community to assist the process, if necessary. The Dominican Republic, Guyana, Jamaica and Trinidad and Tobago have had structural adjustment programmes with the World Bank and the IMF. These programmes have included restrictive monetary and fiscal policies intended to improve their fiscal and balance-of-payments positions. They have also included expenditure reduction measures such as the streamlining of the public sector with a view to its greater cost-efficiency, limitations on salary increases, the reduction of subsidies, the privatization of public companies and the elimination of price controls. The measures have also, in some cases, included exchange rate adjustment.

CDCC member countries such as Saint Lucia, Saint Vincent and the Grenadines and the Netherlands Antilles, not under Bank/Fund structural adjustment programmes, have also been attempting to tighten fiscal discipline and economic management. In the Netherlands Antilles, public expenditure as a percentage of GDP declined from 48 per cent in 1987 to just over 39 per cent in 1989.[21]

As an essential part of the restructuring of their economies, the countries have been seeking to increase the inflow of direct foreign investment into their countries - through active marketing of their countries' investment attractiveness, supported by liberalized trade and incentive policies. Generally, the countries have sought to enhance their export competitiveness and to improve their balance of payments and external debt positions.

Although these various policy measures are not necessarily specific responses to the changing global situation, where they have been put in place they constitute an important policy platform, making the countries better positioned to respond to the pressing challenges ahead and to take advantage of whatever

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[20] ECLAC, Overview of Economic Activities in the Caribbean, Port of Spain: UNECLAC, LC/CAR/G.313. p.14.

[21] _Ibid_., p.22.

opportunities these changes may present. In seeking to prepare themselves to operate within the changing global environment, CDCC countries will find themselves constrained by their existing economic structures; by traditional and entrenched patterns of production and consumption; by existing social organization; by the openness of society and economy. The task facing CDCC member countries as they prepare to enter the twenty-first century is a difficult one, requiring vision and resolve.

Action at regional levels

Of necessity, action at regional levels must deal mainly with the OECS and CARICOM groupings. The OECS has put in place a number of joint efforts aimed at economic diversification and cost reduction, and a sub-set of its members is actively pursuing political union; the Caribbean Community (CARICOM) has been trying to rationalize its common market arrangements and to comprehensively examine future directions relating to the development of the CARICOM region and to possible political unification.

Action by the OECS

Assisted by their advantages of relatively greater homogeneity, commonality of economic and social circumstances and relative ease of joint decision-making, the OECS countries have taken a number of joint actions aimed at economic restructuring and the more efficient use of that subregion's financial and human resources through the provision of common technical services.

Quite apart from the longer-established joint efforts in areas such as the judiciary, civil aviation, overseas representation, bulk procurement of pharmaceuticals, legal advisory service and common currency and central banking, there have also been more recent co-ordinated efforts as a response to emerging imperatives of economic development. These include the establishment of the Eastern Caribbean States Export Development Agency (ECSEDA) with a view to a joint effort at export business development and active export promotion in the international marketplace; the Eastern Caribbean Investment Promotion Service (ECIPS) involving the establishment of a joint investment promotion office in the United States; and the OECS agricultural diversification unit with a view to a systematic effort at diversification within the agricultural sector towards higher value products of increasing demand internationally.

Four countries of the OECS, those which comprise "the Windward Islands", have begun an active process of public dialogue towards political unification of their countries, a process long proposed and receiving added impetus from the very global developments which are the subject of this paper.

Rationalizing CARICOM arrangements

CARICOM, like other regional groupings, has taken steps to finally put into place, or give effect to, long-standing mechanisms for deepening the process of economic integration within the English-speaking Caribbean. The Heads of Government of CARICOM decided at their summit in 1989 to fulfil all the obligations of the Treaty of Chaguaramas in time for CARICOM's twentieth anniversary and to work towards the establishment of a single market and economy within the shortest possible time.

The CARICOM Enterprise Regime (CER) which provides for the establishment of regionally-owned and controlled companies is attracting renewed interest and there are the beginnings of a possible CARICOM stock exchange with cross-border trading in companies established in Barbados, Jamaica and Trinidad and Tobago already taking place. Efforts have intensified to operationalise the long-proposed CARICOM industrial programming scheme.

CARICOM Heads of Government at their 1989 meeting also took far-reaching decisions on other key integration instruments. They decided on a revised Common External Tariff (CET) intended to encourage regional production of agricultural and industrial finished goods, raw and intermediate materials and capital goods, by providing producers with standard tariff rates applicable to imports from third countries within the framework of a regional home base. This revised CET is expected to encourage competitiveness within CARICOM and, by extension, in international markets. The new area origin rules for purposes of trade within CARICOM are also designed to strengthen regional production by increasing the value added of regional inputs into final products. The Heads of Government took decisions to rationalize the harmonized scheme for the granting of fiscal incentives to industry and to re-establish the CARICOM multilateral clearing facility intended to stimulate intra-CARICOM trade by providing suitable payments arrangements.

Independent West Indian Commission

Another far-reaching decision of the CARICOM Heads of Government taken at their 1989 meeting was to establish the Independent West Indian Commission headed by a distinguished Caribbean national and including a number of distinguished and representative persons. The purpose of this Commission was to advance the goals and ideals of integration within the Caribbean by devising practical mechanisms for achieving political unity before the year 2000, and also to identify modalities for the *de jure* or *de facto* widening of CARICOM to include all of the independent countries in the Caribbean Sea.

The Commission will examine the role of education and training, science and technology, entrepreneurship and management, factors critical to improving the region's competitiveness. The formation of closer economic and trade links with Latin America will be examined.

The question of the widening of the 13-member Caribbean Community to include non-English speaking Caribbean nations has been discussed in certain circles for the past 25 years, but has taken on new meaning in the context of the emerging world economic blocs. The communique of the West India Conference held in Barbados in November 1989 on the implications for the Caribbean of the Single Market noted that "the development of a unified market of all Caribbean nations was an essential prerequisite for the region's long-term survival."[22] This view is shared by the Caribbean Association of Industry and Commerce (CAIC) which has also called for a single CARICOM currency. Non-CARICOM countries such as Puerto Rico, the Dominican Republic, Cuba and the Netherlands Antilles have also called for the widening of CARICOM and for close co-operation in trade, investment and exchanges of information and technology.[23]

<u>The wider Caribbean</u>

Puerto Rico's annual "Point Four Conference" focused in 1991 on "the global changes taking place, their impact on the countries of the Caribbean Basin, and the ways in which the region can face these changes and challenges". The Conference recommended greater intra-Caribbean Basin collaboration and the development of "a consensus concerning a minimal harmonization of needs and interests between the Caribbean island nations and Central America."[24]

More widely, the Conference embraced "the general principle" that "in relation to external developments Caribbean, Central American and Latin American States should as far as possible seek to adopt positions which are harmonious and consistent."

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[22] Caribbean Insight, (1989) European challenge spurs on Caribbean integration debate." London, Vol. 12 No.12.

[23] Caribbean Insight, (1991) "Slow Approach to Caribbean Integration Causes Concern", London. Vol. 14 No.1.

[24] See Fourth Annual Point Four Conference, Investment and Trade Opportunities in the Global Environment, Final Communique, 29 April - 3 May 1991.

The recommendations of this Conference are to be followed up by a Caribbean Basin Technical Advisory Group (CBTAG) which was established by the Conference. Among proposed members of this Group are representatives of the non-CARICOM ACP States, and the British, Dutch and American Caribbean Dependencies.

Future directions

Recent international developments were in part responsible for the commissioning of a study on "The Caribbean to the Year 2000"[25] intended to comprehensively examine current development strategies of the Caribbean Community and to suggest changes in strategy in order to have a place in the changing global system. This report (known as the Bourne Report after its principal author), received widespread attention within the English-speaking Caribbean and formed the basis of an economic consultative economic conference which took place in February-March 1991.

The Bourne Report suggests several preconditions for the realization of economic transformation within the emerging world economic environment. They include:

(a) Increasing the proportion of domestic resource use in production;

(b) Policies that enhance the competitive position of the region vis-à-vis third markets;

(c) Policies that increase domestic savings and investment and facilitate the expansion of capital markets to encourage investment and capital accumulation;

(d) The prudent management of State enterprises and budgets to maximize the efficiency of savings and investment strategies;

(e) Demand management policies that restrain import demand and encourage the efficient use of scarce foreign exchange;

(f) Technology policies that provide strong incentives for innovation;

(g) Education policies that improve the ability to adapt and apply modern technology by increasing skill levels and enhancing the capacity for technological innovation;

(h) Expansion and product innovation in services such as tourism and newer, knowledge-intensive services.

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[25] Commonwealth Secretariat/Caribbean Community Secretariat "Caribbean Development to the Year 2000: Challenges, Prospects and Policies". June 1988.

CARICOM Heads of Government saw the need to seek broad social consensus on future directions for the CARICOM region and met with representatives of women's organizations, unions, business and other non-governmental organizations with a view to reaching agreement among the "social partners". This Conference agreed that there were four elements in any approach to future development of the CARICOM region in the emerging world scene.

The first element of that approach emphasized the importance of human resources in economic and social development and the need for policies to enhance the quality of education and training and improve access to the highest levels of education. The development and promotion of the science and technology capability of the region should form an essential part of this process and attention should be paid to health, nutrition, housing and sanitation. Policies designed to keep population growth at levels compatible with a sustainable level of quality of life for the people of the region should also be an integral part of the human resources development programmes.

The second element underlined the importance of the participation of all sectors of society in the formulation and implementation of policy. The public sector, the business sector, the trade union movement, the university and the non-governmental organizations were all recognized as major players in the economic and social development process of the region with special responsibilities which should be reflected in the decision-making process.

The third element of the approach was the adoption of outward-looking development strategies which give trade a preponderant role in economic development. In the specific context of the region, it was thought that agriculture, agro-industry, minerals, manufacturing and services had good potential for exports and that export earnings should receive the required priority in economic policy. The strengthening of financial systems and the increase in savings and investment in the region were identified as essential components of development strategies for the CARICOM region. The establishment of a regional capital market and a common currency were seen as necessary instruments for co-ordinated development policy. The pooling of resources and the promotion of joint ventures to take advantage of business opportunities in local and foreign markets should be encouraged and the export-oriented production system should be managed taking into account the need for environmentally sound programmes. It was agreed that a system of common external representation should be put in place as part of a strategy to rationalize the use of the human and financial resources of the region.

The fourth element of the approach emphasized the urgent need to develop and strengthen regional integration and co-operation. This would have the advantage of pooling the financial, human and natural resources available in the region, expanding the market for local production and providing a wider base for training, research and development. A more fully integrated CARICOM would be in a better position to exploit its common sea resources. The Conference urged CARICOM countries to intensify and strengthen their relations with non-CARICOM Caribbean countries and Latin America.

ROLE OF UN-ECLAC

The United Nations Economic Commission for Latin America and the Caribbean (UN-ECLAC) is already involved in supporting the processes, within Latin America and the Caribbean, of comprehending the forces at work in the global and regional systems and ways in which these might impact the economic and social prospects of the countries. The ECLAC Subregional Headquarters in Port-of-Spain has been involved in the technical work leading up to the CARICOM consultative economic conference. The ECLAC document, "Changing Production Patterns with Social Equity", represents an important contribution to giving direction to future economic and social strategy in the ECLAC region.

It can be expected that the UN-ECLAC/CDCC work programme will be impacted by the unfolding developments and by the attempts of CDCC member countries to respond to these by way of co-ordinated regional action, where appropriate, or through national action where such is indicated. The secretariat can continue to assist member countries, by way of analysis and examination of policy options for minimizing the possible negative impact of these changes and taking advantage of opportunities, which they may present. The secretariat can monitor international developments for the benefit of those member countries which could benefit from such a service, thereby ensuring that the fullest possible information is brought to bear on consideration of important issues.

The exchange of views and perspectives on global and regional issues and their likely effects on the region is necessary for a continuing assessment of these fast-moving developments. The ECLAC/CDCC secretariat can facilitate such exchanges through the organization of meetings and seminars and the provision of technical support. These exchanges can assist policy-making through more informed economic policy decisions and can facilitate the articulation of appropriate strategies.

The work programme of the UN-ECLAC/CDCC secretariat may need to continue to reflect the need for ongoing support to the process of consensus-forming within the CARICOM region by assisting the fuller elaboration of recommendations contained in the Bourne Report and emanating from the economic conference. The secretariat would wish to subject the UN-ECLAC prescriptions on changing production patterns with social equity to a greater degree of scrutiny by regional officials from the standpoint of the Caribbean and in the context of future directions for economic and social progress. The secretariat would also wish to continue to give every possible support to the work of the independent West Indian Commission, particularly taking into account the Commission's mandate to deal with the question of the wider Caribbean. The secretariat would also wish to consider resuming regular sessions of economic and social planners of the member States of the CDCC to review economic and social progress and agree on joint or co-ordinated action where indicated.

As an organization, the membership of which includes countries of the Dutch, English, French and Spanish-speaking Caribbean, CDCC may be excellently positioned to serve as a forum for discussion and decision-making in areas requiring or permitting of joint or co-ordinated action. As a United Nations agency it may be in a position to serve as a window of access to the resources of the United Nations system in areas where its members require such access. As a member of the UN-ECLAC system it may be well positioned to initiate a process of increased collaboration with other parts of that system to examine avenues for further co-operation between the Caribbean and Latin America. It may well be that now, to a greater extent than ever before, the UN-ECLAC/CDCC secretariat may be called upon to serve the interests of its members in these areas.

The extent to which the secretariat can carry out these various tasks is subject to the budgetary limitations of the system within which the office operates, and to the wishes of the member States. There may be room for further collaboration with other United Nations organizations on aspects of this work; such collaboration may facilitate the carrying out of the work within the financial limitations of the secretariat. It may help, nevertheless, to situate these tasks within the context of the comparative strengths and competence of the secretariat deriving from its geographical makeup and the institutional family of which it is a part.

CONCLUSION

The world is entering a new era characterized by the prevalence of market economies, the existence of large trade blocs and movement towards a more open trading system. Because the events are still unfolding, their implications for the Caribbean cannot, at this stage, be known with certainty. These implications will depend not only on the kinds of measures enacted in the course of the integration of the countries of the north; they will also depend on the kinds of measures which the countries of the south put in place in the interest of their own development. The implications may be both positive and negative; but it is certain that the economic management, social stability and living standards of the countries will be severely tested. The very structures of the economies which may make the job of economic adjustment so difficult also make it essential - because failure to adjust is likely to have painful consequences.

That the new world situation may present certain opportunities is perhaps undeniable. The Bourne Report suggests that despite the slow revival of the world economy, world demand for selected commodities is expected to grow strongly. This growth, however, will be for new products some of which compete with or may even displace Caribbean export staples; and exploiting new opportunities will require significant improvement in the region's competiveness. There is also a perceived upward trend in the demand for services, including tourism and knowledge-intensive services. Bourne sees the emergence of the Pacific Rim as a new international growth center, and the long-run growth prospects of Latin America as promising features for the Caribbean.

This paper has referred to some of the approaches being adopted within the Caribbean at national and regional levels to come to grips with the new realities. Economic diversification has been accepted as an imperative and work in that direction has commenced. Tariff and other support measures have been put in place. In all this, it is important that policy-makers continually seek to ensure the correctness of their policy measures at national and regional levels, while striving to avoid the appearance of inconsistency. The region cannot recoil into its inward-looking self, cocoon-like; yet how open its trade and international economic relations should be is not a question which is easily answered.

There is a short-term dimension to the Caribbean response: continued protection for the banana and sugar industries; continued preferential access to the United States market; avoiding preference erosion, etc. Efforts at these levels must continue. What Caribbean countries should never fail to grasp, however, is the need to commence efforts within the very short term towards a shift in economic structures and patterns of production and consumption to enable these countries to have a place in the

twenty-first century. Even as the Caribbean "responds" to the unfolding developments, it should not lose sight of the longer-range, more developmental imperatives; and of the fact that it cannot plan on the basis of a permanent place in its scheme of things for "preferential treatment".

The challenge is a very difficult one: "On the whole, the standard economic indicators tell a dismal tale. Altogether, the survey of development performance provides no grounds for comfort. The challenge of development, or even more strongly, the imperative of development still prevails"[26].

UN-ECLAC/CDCC may have a role to play in facilitating dialogue and decision-making on the set of questions raised in this paper. It is in some respects uniquely positioned to assist this process. There may be a need for dialogue with its member countries with a view to determining how this role might best be carried out in the context of changing global developments and in the context of the approaches adopted by the Caribbean Governments to adapt to these changed realities.

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[26] *Ibid.*, page 17.