Caribbean Integration into the World Economic System

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Preface

The Center's interest in the Caribbean CSIS dates back to 1965, when it issued a report on the Dominican crisis. Since then, the Center has focused attention on the U.S.-Caribbean relationship, particularly in the areas of the regional trade agenda, governance, and security issues.

In this Policy Paper on the Americas, Sidney Weintraub examines the challenge of integrating the countries of the Caribbean into the international economy, and considers the implications of several of the proposals now under discussion by Caribbean leaders. This report is one of a series of special studies of the region, including *U.S.-Caribbean Relations into the 21st Century: Policy Considerations*, *Democracy in the Caribbean: A Cause for Concern*, and *U.S. Policy and Democracy in Latin America and the Caribbean*, and a CSIS Report, *Haitian Frustrations: Dilemmas for U.S. Policy*.

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Introduction

Despite much hand-wringing about the fate of the Caribbean, GDP growth was satisfactory for the majority of countries in the region during the 1980s, certainly as compared with Latin America. The region's average rate of growth on an unweighted basis was 2.2 percent per capita.[1] The smaller countries did relatively well, but the larger ones did not. It is clearly premature to proclaim the end of history for the region. (The countries included in the Caribbean as defined here are shown in note 1.)

The global situation faced by the countries of the Caribbean is changing rapidly. In the trade field, the Uruguay Round will reduce margins of preference in their main markets; the North American Free Trade Agreement (NAFTA) will erode preferences even more in the U.S. and Canadian markets; the Lomé convention, while it still has five years to run, is under review and its extension on current term is questionable; and the banana regime in the European Union (EU) is under attack, and while it may survive for now, its longer-term prospects are not good. Aid flows are declining and reliance for capital will have to be placed increasingly on domestic savings and foreign investment flows.

The discussion that follows will focus on balance-of-payments issues—trade in goods and services and capital flows—although these matters cannot be separated from domestic policies. The balance-of-payments emphasis is justified by the high ratios of exports and goods and services in the generation of GDP in these small countries, coupled with the great reliance most of them have on capital inflows to finance large current account deficits.[2]

While it is clear that a transformation in the Caribbean's external policies will have to occur, it is not apparent how much breathing space the countries have to make changes. The policy trajectory undoubtedly will combine efforts to retain current benefits, while also preparing for their diminution. The adjustments needed vary among the countries and this detail is not easily captured in a brief essay designed to deal generally with the region.

The next section of this essay will lay out the range of views that have been expressed about this combination of policy retention/reform. This will be followed by my own views, differentiated by short- and long-term demands. The final section will pose questions about key issues and then provide brief answers that come from the earlier discussion.

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[1] World Bank for the Caribbean Group for Cooperation in Economic Development (CGCED hereafter), *Caribbean Countries Policies for Private Sector Development* (Washington, D.C.: World Bank, 1994), 6-7. The countries included in this calculation are Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago. When weighted by GDP in 1980, there was no growth during the 1980s because of declines in per capita GDP in many of the larger countries. The annual per capita GDP growth from 1982-1992 is given in another source (see note 2) as 2.8 percent.

[2] The current account balances for the years 1980-1992 are shown in World Bank for the CGCED, *Coping with Changes in the External Environment* (Washington, D.C.: World Bank, 1994), 32.

Range of Policy Views

The World Bank

The most extensive and carefully laid out views regarding Caribbean participation in the emerging international economic structure are those of the World Bank. These can be found in a series of studies prepared for the Caribbean Group for Cooperation in Economic Development (CGCED).[3]

The World Bank program has three core elements:

1. World trade is becoming more open, thereby reducing Caribbean preferences in its main markets; and Caribbean countries must themselves become more open to imports and cease thereby to burden exports of goods.

2. Export emphasis should be placed on nonfactor services, particularly tourism, but also such other services as health care, education (particularly higher education), financial, software programming, and information. The World Bank points to past successes in this field, the increase in the share of services in world trade (about 21 percent in 1991), plus the inclusion of the General Agreement on Trade in Services (GATS) in the Uruguay Round.

3. This strategy requires increased reliance on mobilizing domestic and foreign savings, led by private sector initiative. However, public sector savings must also be increased. The Bank's proposals call for the public sector to move away from activities that compete with the private sector and to focus instead on the policy framework for development, and to provide the means for the expansion of service exports. The latter include more extensive human resource development, improving infrastructure, and devoting increased attention to environmental protection.[4]

These themes are elaborated in considerable detail in a number of World Bank publications, and they are buttressed in detailed studies of each of the countries. There is no reason to repeat the arguments here, but the overall World Bank position has an inner coherence that makes it quite persuasive.

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[3] One study that should be mentioned in addition to the two cited in notes 1 and 2 is World Bank for the CGCED, *Economic Policies for Transition in the Organization of Eastern Caribbean States* (Washington, D.C.: World Bank, 1994).

[4] On the last named, see World Bank for the CGCED, *Initiatives for Regional Action on Caribbean Environmental Issues* (Washington, D.C.: World Bank, 1994).

The World Bank is equivocal about what it calls the "NAFTA option" (whether Caribbean countries should join the agreement). After listing arguments against seeking membership, however—few trade preferences over and above those already granted under the U.S. Caribbean Basin Initiative (CBI) and Canada's Preferential Scheme for the Commonwealth Caribbean (CARIBCAN) would be forthcoming, the loss of all import protection over a reasonable transition period, and the sacrifice of Lomé preferences—the World Bank concludes that "the costs of not joining NAFTA would clearly outweigh these considerations."[5] The basis for this conclusion is that NAFTA membership would prevent erosion of current U.S. and Canadian preferences and, equally important, reduce the danger of investment diversion.

The "NAFTA option" is not an immediate issue. The agreement at the Summit of the Americas does not call for a Free Trade Area of the Americas (FTAA) until the year 2005, and there is no evidence that the United States is prepared at present to expand NAFTA beyond Chile, assuming the Congress permits the administration to go that far.

The World Bank has provided a separate study on the Organization of Eastern Caribbean States (OECS), for which recommendations must take into account the special conditions in these countries.[6] For the Windward Island countries, other than Grenada, banana exports constitute 50 percent or more of total merchandise exports (figures for 1992): Dominica 57 percent; Grenada 17 percent; St. Lucia 60 percent; and St. Vincent and the Grenadines 49 percent.[7] Each of these countries exports more goods to Europe than to all other regions combined, whereas for the Caribbean countries as a whole North America is by far the dominant export destination. In other words, continuation of the banana regime is seen as a sine qua non in this region.

It is not necessary here to go into the details of the EU's revised banana policy adopted as of July 1, 1993, except to note that it is under international challenge.[8] Because of its importance to the economies of the three main banana exporting Windward Island countries—the World Bank has estimated that their banana exports constituted close to 20 percent of GDP in 1992—there is every reason for them to fight for continuation of this preference. The thrust of the World Bank position, however, is that Windward Island governments must prepare for a transition to a nonpreferential banana regime.

Unlike the recommendations for Caribbean countries generally, where a reduction in the level of foreign aid is assumed to be inevitable, the Bank suggests that official aid

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[5] CGCED, *Coping with Changes*, 103.

[6] CGCED, *Economic Policies for Transition in the Organization of Eastern Caribbean States*.

[7] Ibid, 35.

[8] One study prepared for the World Bank deals quite harshly with the EU regime, Brent Borrell, "EU Bananarama III," undated, but issued in 1995. It recommends direct aid in place of banana aid on two grounds, that banana aid is inefficient and punishes non-preferred supplying countries; but that loss of banana aid without compensation would have severe economic and social consequences in the preferred countries in the Caribbean and Pacific.

to Windward Island banana exporters be increased in their transition away from a preferential regime. This may eventually be accepted because the amounts are modest, but is by no means assured in this era of aid reductions. The other recommendations, however, are similar to those for the Caribbean generally—movement into other economic activities, particularly services, even as efficiency and productivity improvements are sought for the banana industry.

Richard Bernal

Bernal has been quite forceful in seeking some immediate variant of the NAFTA option.[9] Bernal's position encompasses a series of steps eventually leading to full accession to NAFTA by Caribbean countries, a so-called "orderly accession." The central feature of the proposal is to give Caribbean countries full access to the markets of NAFTA countries while they, the Caribbean countries, provide reciprocity only over an extended period. The rationale for this gradual reciprocity is that Caribbean countries are not able to provide full reciprocity at this time.

The technique he suggests for accomplishing this is for NAFTA to devise a form of associate membership under which associate members would reach agreement with NAFTA on "selected issues, sectors and products," while GATT rules would govern other areas.[10] There is a Jamaica-centered aspect to Bernal's discussion—what he proposes is most germane for the bigger English-speaking Caribbean countries of Jamaica and Trinidad and Tobago.

Much of Bernal's proposals may come to pass even without associate membership in NAFTA. If CBI preferences are broadened to make them more comparable to benefits Mexico receives under NAFTA, particularly for apparel and other manufactured goods, much of the potential trade diversion problem of major Caribbean exporters of these products, including Jamaica, would be eased. The CBI mechanism would provide one-way preferences in the U.S. market in favor of the CBI countries and not compromise the preferential relations under Lomé that many of these countries now enjoy. What Bernal proposes is essentially a free-trade area under which there is no explicit or reasonable plan and schedule for the elimination of substantially all import barriers among member countries—i.e., there is delayed and unspecified reciprocity on the part of the Caribbean countries. This suggestion, unless modified, would not conform to Article XXIV of the GATT. Nor would special arrangements on particular sectors if the preferences were reciprocal.

The CBI legislation proposed in 1994 by the U.S. administration, and which is likely to be incorporated in any CBI bill that has a chance of congressional approval, includes some reciprocity on the part of CBI countries for improving conditions for foreign direct investment and protecting intellectual property. If this is done on a most-favored-nation (MFN) basis, it would not contravene GATT provisions.

Consideration of CBI legislation is pending in congressional committees of the U.S. House of Representative and Senate as this is written. There is no certainty that such legislation will be enacted by this congress, or that its final form will be identical to what is now in the

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[9] Bernal, the Jamaican ambassador to the United States, has written and spoken much on this issue. One example of these presentations is Richard L. Bernal, "From NAFTA to Hemispheric Free Trade," *Columbia Journal of World Business*, vol. 29, no. 3 (Fall 1994), 23-31.

[10] The idea of associate membership has been suggested by many others, for example, Peter Morici, *Free Trade in the Americas* (New York: Twentieth Century Fund Press, 1994), 28-29.

separate bills. As now configured, CBI countries would receive import treatment in the United States comparable to what Mexico receives under NAFTA for apparel and most other manufactured and agriculture products now excluded from benefits. In return, CBI countries would have to provide more favorable treatment for foreign direct investment and protection of intellectual property on an MFN basis. Finally, one of the pending bills sets forth procedures for completing negotiations for accession to NAFTA by CBI countries no later than 2005, the date set at the Miami Summit of the Americas for establishing the FTAA.[11] This provides the beginnings of a plan and schedule missing from Bernal's proposal.

Nevertheless, the bills as now structured would move a long way toward what Bernal proposes, at least with respect to U.S. treatment of merchandise imports from Caribbean countries. They would not, however, cross over into more ambiguous territory of preferential sectoral arrangements or setting out a free-trade area without a definite plan and schedule.

R. DeLisle Worrell

A somewhat different vision of greater Caribbean insertion into the world economic system is provided by Worrell.[12] Worrell's position is that tariff and nontariff barriers hardly affect intra-Caribbean integration or integration with North America. He stresses reducing transportation and transaction costs and increasing the freedom of movement of capital and labor within the Caribbean region. He goes beyond this by advocating not only fixed exchange rates for Caribbean countries, but also monetary union among them with an independent central bank.

In this vision, the nature of Caribbean and North American integration is presented more by what is not possible than by what is. Some form of equitable relationship is needed, but Worrell states that it must take into account "that neither side

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[11] Stephen Lande and Nellis Crigler, "CBI and NAFTA Provisions Compared," in Georges Fauriol and G. Philip Hughes, eds., *U.S.-Caribbean Relations into the 21st Century* (Washington, D.C.: Center for Strategic and International Studies, 1995) contains a comparative analysis of CBI and NAFTA benefits as they apply to CBI countries.

[12] R. DeLisle Worrell, "Economic Integration with Unequal Partners: The Caribbean and North America," Working paper no. 205, Latin American Program, Woodrow Wilson Center for Scholars, Washington, D.C., 1994.

wishes to allow for full integration, with freedom of labour movement and automatic mechanisms for fiscal transfers from the US to disadvantaged regions of the Caribbean."[13]

Worrell also asserts that free trade in the Americas will benefit the Caribbean only if it leads to free trade globally. He expresses concern over the growth of U.S. isolationism leading to a "Fortress America" competing with a "Fortress Europe," although the evidence for this outcome is skimpy, particularly now that the Uruguay Round has been completed. His central argument is that the Caribbean can by itself, without negotiation with NAFTA, deepen its integration through currency stability and capital and labor mobility within the region.

A Comparison

There are some common themes in these various visions of greater Caribbean insertion into the world economy. Worrell devotes special attention to coordinated policies in the English-speaking Caribbean, but all the other proposals, either explicitly or implicitly, make clear the importance of coherent and economically sound national and regional policies for foreign economic policy to succeed. Worrell, however, gives much more attention to monetary union in the English-speaking Caribbean than do the other commentaries listed here. The others focus much more directly on trade and investment links.

Both the World Bank and Bernal argue for eventual accession of Caribbean countries to NAFTA. Bernal is more specific on the path to this objective, namely associate membership, but his presentation is less complete than that of the Bank on how smaller countries should move in this direction. The Bank, Bernal, and the Lande-Crigler paper (cited in note 11) all cover the possible trade diversion, coupled with investment diversion, that could affect Caribbean countries as a result of more ample preferences to Mexico under NAFTA than exist in the CBI. The issue, as all of them agree, is how to mitigate these adverse effects on the Caribbean until the countries are ready for accession to NAFTA.

The differences are largely in their selective emphases, but these are crucial in that a particular emphasis implies a de-emphasis of another aspect. Where should the primary emphasis (or emphases) be placed?

- On building up the ability to export services, as the World Bank proposes? This requires attracting much foreign investment.

- Focusing for now on improvement of the CBI and leave questions of NAFTA accession for later?

- Or, instead, focusing on the path to eventual accession and thereby seeking to alter the CBI from a unilateral U.S. grant of benefits to a contract in which the Caribbean has a voice when the United States seeks to make changes in CBI provisions?

- Facing head-on now the choice between continuing Lomé preferences or obtaining NAFTA accession? This is a sub-category of the NAFTA-CBI priority issue.

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[13] Ibid, 15.

- For countries that export substantially to the EU, such as the main Windward Island banana exporters, concentration on how to combine retaining these benefits while also making a transition to their eventual loss?

- Focusing now on the monetary, capital, and labor issues that Worrell recommends?

- Finally, there is the great power of inertia—to continue what is now being done, at least for those countries for which it has worked in raising per capita incomes.

The foregoing are listed as competing emphases, although there are overlaps. Many of them require decisions not just from Caribbean countries, but also negotiation with others, particularly the United States but also NAFTA as a whole, the EU with respect to Lomé and bananas, and within the Caribbean. It is important, however, for the Caribbean countries to define their negotiating objectives. They may not be fully achieved in an actual negotiation; but then, any participant in a negotiation must establish a set of priorities. It is to this that the paper turns next.

Setting Priorities

Four considerations must loom large as Caribbean countries consider actions for greater insertion into the world economy.

1. The world trading situation is changing. Margins of preference, where they exist, are declining for Caribbean countries, whether under CBI, CARIBCAN, Lomé, or the various systems of preference of the industrial countries. NAFTA even reverses many Caribbean preferences in that these countries, formerly favored by the CBI and CARIBCAN, now face discrimination as compared with Mexico.[14] The new EU banana regime is an exception in that rather than narrowing the scope of preferences, it has extended them to EU countries where they did not exist before, especially Germany. One country's preference is another's discrimination. This is an important reason for the adverse international reaction to the EU action.

2. Official capital flows to Caribbean countries clearly are declining and the region must rely increasingly on private flows. This is evident from the data depicted in Figure 1. Two other features of financial flows should be highlighted. These are the importance of foreign direct investment (FDI) and the substantial level of remittances from persons of Caribbean origin living outside the region (Figure 2). The level of national savings is quite low in many Caribbean countries, as is evident from Figure 3, which means that it is imperative to attract foreign savings.[15] Current account deficits in relation to GDP are also quite large throughout the

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[14] The argument can be made that NAFTA, to the extent that it equalizes preferences for Mexico with those that have long existed under CBI, is a positive step. However, when equalization gives way to discrimination, then a new distortion is inserted into the world trading system.

[15] Data are available on public sector saving, but they are inadequate for private savings. Some data for individual countries are available in CGCED, *Coping with Changes*, p. 44. For this reason, the data shown in Figure 3 are far from precise.

Caribbean, which also brings out the importance of capital inflows (Figure 4).[16] Policies that impede financial inflows into the Caribbean are clearly self-defeating.[17]

3. Prospects for greater insertion into the world economy are more promising in the service sector for most Caribbean countries than in the goods sector. The most promising service activities require a great degree of openness—to FDI, the movement of personnel into the Caribbean countries for providing many services, and extensive interconnections with the outside world. The last is evident in tourist services and for communications, education, health, record keeping, and others. A highly educated national population is an imperative for success in many of these service activities.[18]

4. The major market for Caribbean exports, whether of goods (see Figure 5) or services, is North America. The main exception is for banana exporters who benefit from EU preferences. North America, if anything, is likely to grow in importance as the destination for Caribbean exports. This leads to the inevitable conclusion that as export policy is fashioned, the emphasis for most countries should be on North America—the United States in particular.

The last of these considerations should perhaps be analyzed first because it forces consideration of a number of choices: North America versus Europe; Lomé versus NAFTA; continuation of the CBI versus something more in the nature of a contract with the rest of North America; the short term versus the long term.

For the important banana producers of the Windward Islands, there is little choice in the short term other than to fight for continuation of the EU preferences. It does not follow that these preferences must be fashioned as the EU recently chose to do—under which the benefits go primarily to EU middlemen rather than to producers in the Caribbean—but unless and until the resources from banana exports can be replaced by something else, the exporters have few options.

The international clamor against the current banana preferences may, however, force change in the longer term, regardless of the desires of the Caribbean exporters. These countries, even as they fight for continuation, must also consider their extrication options. Even if the revenue from banana exports were to be replaced by foreign aid, as the World Bank analysts suggest, it would not be a long-term solution. Foreign aid is likely to be limited in time.

Short-term/long-term options arise as well for other countries in the Caribbean. The most important short-term option for their export aspirations is improvement in the benefits of the CBI to reduce the preferences in favor of Mexico for their most important merchandise exports, especially apparel.[19] There is already some evidence of export diversion away from the Caribbean to Mexico for apparel and this is likely to increase as investors take advantage of Mexico's depreciated exchange rate and expand investment there. But parity with Mexico in this

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[16] Remittances are a current account item and are taken into account in the deficit figures of Figure 4.

[17] Some restrictions that exist are outlined in CGCED, *Caribbean Countries Policies for Private Sector Development*, pp. 118-119.

[18] Many of these considerations are discussed in Robert Schware and Susan Hume, "The Global Information Industry and the Eastern Caribbean," World Bank Viewpoint paper, July 1994.

[19] According to CGCED, *Coping with Changes*, p. 105, textiles and clothing accounted for about 24 percent of regional exports to all OECD markets in 1992. Most of these go to the United States. NAFTA preferences are less germane or nonexistent for most other exports.

sector is a short-term solution—a 10-year solution as import quotas under the multifiber arrangement in the GATT are phased out. Then the competition from low-cost Asian producers is likely to become more intense than it is today, despite tariff preferences that will remain.

The most important short-term/long-term issue, however, centers on the unilateral decision-making that exists under the CBI—the United States need not consult with CBI countries as it adds or removes items from benefits, or even as it removes countries for some infraction of the U.S. legislation—as opposed to having a contract under which the two sides, the CBI countries and the United States, have a voice in decisions. For the short term, improvement of the CBI is really the only feasible option for more beneficial access to the U.S. market. Neither the Caribbean countries nor the United States is ready for NAFTA accession negotiations.[20] For the long term, NAFTA accession—a contract, not a grant—may be an option for the Caribbean countries.[21]

The World Bank endorses the NAFTA option. So do Bernal and Lande-Crigler. Worrell is equivocal. The value of NAFTA accession is not self evident for the Caribbean countries. Worrell correctly points out that U.S. and Canadian import barriers against most Caribbean exports are not onerous. Indeed, most enter duty free under CBI and CARIBCAN. The U.S. general system of preferences (GSP) gives further beneficial treatment to many imports from the region. If CBI benefits can be improved, why undertake the wrenching liberalization that NAFTA would require?

The response of the NAFTA accession proponents is that a comprehensive free-trade agreement of this nature is about much more than border barriers, whether tariffs or nontariff measures. A contract assures continuity of policy, both on the import side by current and future NAFTA members, and on the export side in favor of the Caribbean countries. The lack of a precise contract has in fact made liberalization within CARICOM slow and uneven because, if there were a contract, equivocation tactics would be less acceptable. NAFTA is not just a trade agreement. One can argue that from the Mexican viewpoint, the more relevant aspect is the incentive it gives to direct investors—domestic, North American, or other. This would be true for Caribbean countries as well.

Even this distinction between trade and investment is artificial because the two are inseparable. The attraction of Mexico for corporations in the United States and increasingly those in Canada is the ability for co-production, in *maquiladoras* and elsewhere. Proximity facilitates the production of components in any location for eventual assembly in other locations for marketing in any of them. The Caribbean would have this attraction as well.

And even this attraction is hardly the complete story. Entry into a free-trade agreement demands national macro- and microeconomic policy measures that do not frustrate investors or producers. The cost of incorrect policies can be high—as Mexico is now learning—but the benefits of correct policies can be more substantial for the smaller countries than for the large. NAFTA accession, whatever its pitfalls for Caribbean countries, would demand discipline from them that does not now exist.

It is here, really, where I part company with Worrell. He asserts the following: "The

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[20] Implicitly, I am asserting here that the Bernal proposal for Caribbean accession with an indefinite schedule for eliminating import barriers would be unacceptable to the United States and presumably to the rest of the world because the NAFTA countries would enjoy preferences in the Caribbean even though the requirements of Article XXIV of the GATT would not be met.

[21] Lande and Crigler, "CBI and NAFTA Provisions Compared," deals with the issue of contract versus U.S. unilateralism.

principal issues for negotiations with North America are effective mechanisms to remove remaining barriers to Caribbean exports, soliciting additional finance to develop human resources and infrastructure in the Caribbean, and measures to accelerate technology transfer."[22] Fair enough, but why divorce these objectives from Caribbean accession to NAFTA? Will the additional funds needed to develop human resources and infrastructure come from more aid or from foreign investment? Under what circumstances will this investment be optimized, within or outside of NAFTA? Will technology transfer be more likely if NAFTA provided the certainty of treatment that is now lacking? Will the investment in the kinds of service industries the Caribbean countries should seek—particularly those involving technology transfer—be more likely if they were members of NAFTA than if they were not?

[22] Worrell, 39.

Worrell argues that the Caribbean countries already have at their disposal powerful measures to integrate their economies—to achieve currency stability and capital and labor mobility—and he divorces these from NAFTA negotiation. Why haven't the Caribbean countries taken these measures already? The question he should ask himself, I think, is whether NAFTA membership would provide incentives for the very internal integrative measures he advocates.

Caribbean accession to NAFTA is not a burning issue in the United States. It may never be from an economic viewpoint because the markets are small.[23] NAFTA accession may not be a burning issue in most Caribbean countries either, but many of them have a greater stake in the NAFTA option than does the United States. In any event, to repeat what was stated earlier, the question of NAFTA accession is not an immediate one for either side. But as we move from the short to the longer term–as we move toward 2005 and the possibility of concluding negotiations for an FTAA–plans must be set in motion for a NAFTA or related option. The initiative for this will rest more with the Caribbean countries than with the NAFTA countries.

Should the decision be made to plan for NAFTA accession, it would of course require some consideration of the preferences the Commonwealth Caribbean countries now enjoy in the EU. Few commentators have been prepared to face this issue head on, at least not now.[24] Neither am I. A positive decision on the NAFTA option means the end of Lomé unless the Caribbean countries were prepared to eliminate substantially all import barriers on an MFN basis–which is unlikely. Giving up Lomé preferences surely is not an option that countries of the Windward Islands are prepared to consider, certainly not now while they enjoy banana preferences.[25] Giving up Lomé preferences would be less of a wrenching issue for many other Caribbean countries, such as Antigua and Barbuda, The Bahamas, and Trinidad and Tobago. As Figure 5 shows, only 17.5 percent of Caribbean exports went to Europe in 1990, and the percentage was lower for the three countries mentioned.

A few points can be made, however. To the extent that service exports are expanded, Lomé preferences become less important for the generality of Caribbean countries. In any event, even for goods, margins of preference are diminishing. If the EU were prepared to provide general preferences to Commonwealth Caribbean countries, as the United States now does for African-Caribbean-Pacific beneficiaries of Lomé, the cost of giving up Lomé preferences would be further diminished. If banana preferences were phased out as a result of international pressure and replaced by official aid, it would be desirable for the United States to share in providing this assistance so that it is not seen as something that requires a trade quid pro quo to the EU from the Caribbean countries.

Relevant Questions

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[23] U.S. merchandise exports to the Caribbean countries were US$6.8 billion in 1993, less than 1.5 percent of total U.S. exports. The United States has a political interest in Caribbean stability, which explains why the CBI was instituted, but there is no compelling reason to compromise the integrity of NAFTA to provide economic benefits to Caribbean countries.

[24] CGCED, *Coping with Changes*, p. 103, simply points out that unless the Caribbean were willing to forego all Lomé preferences, imports from the EU would have to be provided unrestricted access. Bernal, p. 29, states simply that his suggestion for associate membership covering only selected issues would permit Caribbean countries to have it both ways by also retaining Lomé preferences.

[25] In a press conference during the Miami Summit, Jamaica's foreign minister, Paul Robertson, called the banana issue a "life and death" matter for the region.

Some conclusions strike me as being so clear as to not require asking questions:

- As stated repeatedly in this essay, Lomé banana exporters must battle for continuation of their preferences in the absence of any tangible alternative.

- Caribbean countries generally must seek improvement of CBI benefits in the light of potential trade and investment diversion stemming from superior preferences to Mexico under NAFTA.

- The future of most Caribbean countries is more promising in expanding and developing service industries–tourism, finance, teleports, record keeping, health, education, and various professional activities–than for goods.

- This, of course, does not mean advances are not possible in the production of agricultural and manufactured products.

- Finally, none of this obviates the need to begin planning for a world structure of trade in goods and services that will be radically different from what exists today.

I will ask 10 questions and give abbreviated answers.

1. Where should the focus be on Caribbean insertion into the world economy? The answer, I believe, is on the United States and, because of what is happening in North America, on NAFTA.

2. Should the Caribbean countries begin now to prepare themselves for NAFTA accession? My answer is yes. This does not mean foregoing improvement of the CBI in the short term. Indeed, the reciprocity that is certain to be asked of CBI countries if U.S. legislation is enacted will include placing fewer restrictions on FDI and increased protection of intellectual property. These commitments will be necessary in any event in negotiations for accession to NAFTA.

3. What does preparation for NAFTA accession mean? When the statement is made that most Caribbean countries are not ready to enter NAFTA, this refers normally to shortcomings in macro- and microeconomic policies. Thus, preparation for NAFTA accession refers primarily to policy measures in the individual countries plus the strengthening of CARICOM. The actions that Worrell advocates would fit into this preparation. So, too, would be other measures of the type discussed in World Bank studies, such as defining the roles of the public and private sectors, taking measures to increase domestic savings, encouraging capital inflows and capital mobility, eliminating many import barriers, unification of exchange rates, and moving toward a low, preferably uniform, common external tariff for CARICOM.

4. What would accession to NAFTA signify for economic relations with non-NAFTA countries? This, of course, would require giving up EU-Lomé preferences. In the end, this might prove to be an absolute impediment to NAFTA accession for those countries that rely heavily on

exports to the EU, even if not for all Caribbean countries. However, the nature of EU preferences, and the future of Lomé, will be clearer in the 10 years between now and 2005, when the negotiations for the FTAA are projected to be completed. Lomé itself comes up for renewal in 2002 and the prospects for its continuation in the present form are uncertain now that the EU has been expanded to new members with their own economic interests.

Nothing is lost if countries take measures to strengthen their economic structures even if, at the end of the day, NAFTA accession proves to be impossible, either because of their situations or U.S. recalcitrance. Membership in a free-trade area does not mean giving up trade with nonmember countries. This is particularly true for trade in services where, for the most part, preferential arrangements do not apply. Even if North Americans predominate, tourists come from all over. Telecommunications are global. Financial services can be provided to all comers.

5. Is unity of Caribbean countries necessary to achieve long-term objectives? In the best of all worlds, probably yes. In the world as it actually exists, probably not. It is clear that the Caribbean countries would be more effective negotiating as a group, such as under the umbrella of a strengthened CARICOM, than if each country, or small groups of countries, negotiated on their own. This is more easily said than done. The larger countries—Trinidad and Tobago and Jamaica—are more able to consider NAFTA accession than the smaller countries. Some could forego EU preferences, while others cannot, certainly for now. Even the CARICOM grouping does not represent all of the Caribbean. It is hard to escape the conclusion that unity, at least of CARICOM, is better than disunity, and achieving this unity should be the objective.

6. What is required to augment the export of services? This already has been discussed, but merits emphasis. Caribbean countries have much experience with various kinds of services, such as tourism, financial services, and even education, and this experience can be drawn on. The stress I wish to give here is that many of the emerging services for which there is less experience, such as value added telecommunications services, professional activities like medical services, and sophisticated financial services, require many highly skilled people. Services are sometimes equated with low-skill activities, but this is not necessarily accurate. Increased service exports not only demand improved educational opportunities, but an open door to capital and personnel inflows. To the extent these are restricted, success in generating significant earnings from sophisticated services will be prejudiced.

7. Where will resources come from to augment the insertion of Caribbean countries into the world economy? Most Caribbean countries have moderate to low savings rates, and many have large current account deficits. They already require capital inflows to finance imports of goods and services and to supplement domestic savings. They will need much FDI to develop world-class service activities. They will have to assure protection of intellectual property if they hope to obtain the requisite technology.

8. Are Caribbean entrepreneurs prepared for the competition that would accompany more open important import markets? This is an important question whose answer is unclear. Many Caribbean entrepreneurs are ready and have demonstrated their ability to compete by forging alliances with entrepreneurs in the industrial countries. My conviction is that this competitive

spirit will be there when circumstances force its emergence, when internal markets are not excessively protected.

9. Are Caribbean countries basing their actions on sustainable development by protecting their environments? Carrying out the suggestions made by the World Bank and those included in this essay on development priorities—upgrading infrastructure, augmenting various types of services, improving industrial efficiency—require protection of fragile ecosystems if the results are to be durable. The World Bank argues that Caribbean countries are prime candidates for external assistance for environmental protection.[26]

10. Finally, as a summary question: How much must the Caribbean countries factor into their current policies the changing nature of the world trade and financial structures? Very much, according to the World Bank. I agree. The days of substantial external assistance are over. Margins of preference for merchandise trade are eroding and may disappear as the EU expands and the United States enters into preferential free-trade agreements with non-Caribbean countries. There are many opportunities for expanded earnings from a variety of service exports. These, I am convinced, are the realities that Caribbean countries must confront as they look ahead over the next five to ten years.

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[26] CGCED, *Initiatives for Regional Action on Caribbean Environmental Issues.*

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