The impact of NAFTA on the CARICOM countries: the case of Jamaica and its textile/apparel industry

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This study examined the impact of the North American Free Trade Agreement (NAFTA) on the economies of the Caribbean Community (CARICOM).

The study was based on the premise that the implementation of NAFTA would have negative consequences for the CARICOM economies. This was the prediction advanced mainly by political theorists, government officials and economic analysts primarily from the Caribbean region, who suggested that it would be in the best interest of both the economies in the subregion and of the United States, if NAFTA parity were granted to the former in order to alleviate or offset the problems they were likely to experience as a result of NAFTA.

A case study analysis was used to analyze the textile/apparel industry in Jamaica, the sector which was most vulnerable to the consequences of NAFTA. A number of
indicators/variables were utilized to evaluate the pre- and post-NAFTA impact on the industry. Evaluations of these variables were made based on data collected primarily from government sources in Jamaica and the U.S., and from interviews conducted with Jamaican government and industry officials.

The researcher found that there were existing problems within the industry in Jamaica prior to the implementation of NAFTA, that in some cases escalated after the passage of the Agreement. The conclusions drawn from the findings suggest that NAFTA could not be held accountable for the decline in performance of the industry, although it could have contributed to the worsening of the preexisting problems.

The results of the study suggest areas that the CARICOM nations need to pay particular attention to in their efforts to survive in an environment where trade liberalization and globalization will increasingly play an important role in global trade.
THE IMPACT OF NAFTA ON THE CARICOM COUNTRIES: THE CASE OF JAMAICA AND ITS TEXTILE/APPAREL INDUSTRY

A DISSERTATION SUBMITTED TO THE FACULTY OF CLARK ATLANTA UNIVERSITY IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF DOCTOR OF PHILOSOPHY

BY

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DEPARTMENT OF INTERNATIONAL AFFAIRS AND DEVELOPMENT

ATLANTA, GEORGIA

MAY 2001
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<td>ACP</td>
<td>African, Caribbean and Pacific States</td>
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<tr>
<td>ACS</td>
<td>Association of Caribbean States</td>
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<tr>
<td>ATC</td>
<td>Agreement on Textile and Clothing</td>
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<tr>
<td>CABERA</td>
<td>Caribbean Basin Economic Recovery Act</td>
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<tr>
<td>CAP</td>
<td>Common Agricultural Policy</td>
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<tr>
<td>CARICOM</td>
<td>Caribbean Community</td>
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<td>CBI</td>
<td>Caribbean Basin Initiative</td>
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<td>CBTPA</td>
<td>Caribbean Basin Trade Partnership Act</td>
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<td>CLAA</td>
<td>Caribbean and Latin American Action</td>
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<td>EAI</td>
<td>Enterprise for the Americas Initiative</td>
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<td>EFTA</td>
<td>European Free Trade Association</td>
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<td>EPZ</td>
<td>Export Processing Zone</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>FTA</td>
<td>Free Trade Agreement (Association)</td>
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<td>FTAA</td>
<td>Free Trade Area of the Americas</td>
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<td>FTZ</td>
<td>Free Trade Zone</td>
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<td>GATT</td>
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<td>GSP</td>
<td>General System of Preferences</td>
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<td>IMF</td>
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<td>IPR</td>
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<td>NICS</td>
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<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
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<tr>
<td>SEM</td>
<td>Single European Market</td>
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<tr>
<td>UNCLAC</td>
<td>United Nations Commission for Latin America and the Caribbean</td>
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<td>UNCTAD</td>
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CHAPTER I
INTRODUCTION

At the 1998 North East Regional Caribbean Students Conference held at Brown University in Rhode Island, the Prime Minister of Jamaica, P.J. Patterson, suggested that the "Caribbean faces three challenges in the New World Order – development aid to the 3rd World from industrialized countries, the economic marginalization of the Caribbean caused by NAFTA [composed of the United States (U.S.), Canada and Mexico], and the increasing 'technological bias' of the world."¹ These concerns were echoed by other Caribbean leaders such as the Prime Minister of Grenada, Dr. Keith Mitchell, who suggested that the "greatest challenge facing the region" is the ability of the countries to effectively manage the transition from an environment of preferential and protected markets, to one which encompasses a globalized market for goods, services and capital, the formation of large trading blocs, and the decline in official capital trade flows.² The Grenadian leader further elaborated on the issue of preferential access by pointing out that "the exclusion from the North American Free Trade Agreement (NAFTA) parity places the Caribbean region in a disadvantageous position, both with


regard to market access to the U.S., and to the diversion of direct foreign investment from our region to other areas."

In addition to the implementation of NAFTA, a number of other developments have provided the impetus for Caribbean leaders to rethink the manner in which they conduct trade with larger, more industrialized countries. These developments include the conclusion of the Uruguay Round of negotiations along with the establishment of the World Trade Organization (WTO), the enlargement of the European Union (EU), and the replacement of the Lome Convention with a new partnership agreement.

These issues were addressed by the West Indian Commission (WIC) which the Caribbean Community (CARICOM) Heads of State established in 1990 to make recommendations for advancing the goals and objectives of the Treaty of Chaguaramas. In its report, *Time for Action*, the WIC called for the region to become more mindful of the emerging globalization movement, and to take action to prevent the likelihood of the subregion becoming marginalized in the process. The report included, among other issues, recommendations for the CARICOM governments to take the necessary steps to allow for the "free mobility of capital within the region"; for the countries to remove all antiexport biases that may exist; and for the economies to aggressively seek the same concessions as Mexico but without reciprocity. The report also called for the private and public sector interests to organize themselves in order to maintain the region's viability in

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3 Ibid.
certain key areas such as garments, electronics, and other labor-intensive export industries. Much emphasis was placed on trade issues by the WIC.

The importance of international trade as an integral component of economic activity in the Caribbean has long been recognized and cannot be overstated. This is reflected by the region's volume of trade (exports plus imports of goods and services) as a proportion of its Gross Domestic Product (GDP). For the Caribbean, the volume of trade as a proportion of the GDP was about 60% during the early 1900s, and the ratio between the volume of trade and total GDP grew from 0.62 in 1970 to 0.68 in 1980. For example, in 1988 ratios of foreign trade to GDP were as high as 61% in Trinidad and Tobago, 105% in Barbados, and 118% in Jamaica, which are three of the largest among the small economies in CARICOM.

These economies depend on trade for their growth and survival to a greater extent than large economies. Classical theory suggests that participation in international trade contributes to economic growth, by facilitating improvement in productivity

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4 The West Indian Commission, *Time for Action* (Christ Church, Barbados: Cole's Printery, 1992), 159.


6 Ibid., 15.

7 Ibid., 74.

8 Small economies and less developed countries (LDCs) are terms which will be used interchangeably with developing countries, third-world nations, and underdeveloped countries throughout this work.
through the specialization in exports in which countries have comparative advantage.\textsuperscript{9} When small economies produce for the world market, they are able to achieve the economies of scale which are generally difficult to generate if they were producing only for their small domestic market.

This type of open, multilateral trading system has been promoted as a stimulant to economic growth both through the static gains from increased efficiency in the utilization of existing resources, and the dynamic gains from the opportunities to expand productive capacity through the acquisition of new technology, investment, and innovative entrepreneurship. Nevertheless, although they are incorporated into this "free and open" global trading pattern, CARICOM countries, like most other small, developing economies, have enjoyed a special and differential treatment within this global trading system beginning in the immediate post colonial years.

Preferential trade arrangements based on nonreciprocity, have provided assured markets for CARICOM exports in the developed countries, and protection from competition from other exporting countries. These preferential trade programs which have been the cornerstone of the trade relations between developing countries and industrialized nations, were geared to enable the former to develop their economies without having to face competition from the more industrialized nations. However, these arrangements now appear to be in jeopardy as the twenty first century unfolds; and their

likely demise poses serious threats to the economic survival of the CARICOM economies which have come to depend largely on the arrangements for their survival.

The Challenge Facing CARICOM

The participation of Mexico in NAFTA is perceived as a potential threat to CARICOM members, particularly the least developed members of the group. This is so primarily because of the importance to the islands' economies of the U.S. protected market, one which CARICOM leaders predict they will lose to Mexico as a result of NAFTA. In the past decade, the U.S. has increasingly replaced the EU as the main trading partner of CARICOM states, particularly as a market for the latter's manufactured goods. Total CARICOM exports to the U.S. amounted to US $2,052 million in 1991,10 which comprised just over 50% of their world exports.11 The U.S. provided the largest market for the Bahamas, Antigua and Barbuda, Jamaica, St. Kitts-Nevis, and Trinidad and Tobago in 1990, absorbing 50% or more of their total merchandise exports.12 CARICOM's economic future is closely intertwined with the U.S. economy in other ways. The U.S. is the "largest source of CARICOM's tourists, the main market for its oil, bauxite, manufacturing and data services, the principal source of foreign direct

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11 Ibid.

12 Ibid., 49.
investment and the main source of remittances and other transfers. The U.S. is also the
main source of imports."

The assumption that NAFTA will have a disastrous negative impact on this
volume of trade between the U.S. and CARICOM stems from the belief that trade and
investment will be diverted from the region to Mexico as a result of the agreement. The
concern is that the benefits that the Caribbean countries enjoy under the preferential
arrangements with the U.S., namely the General System of Preferences and Trade (GSP)
and the Caribbean Basin Initiative (CBI), will erode as a result of Mexico’s enhanced
position with the U.S. under NAFTA.

CARICOM leaders claim that NAFTA has given Mexico certain advantages
which most likely will increase its competitiveness vis-à-vis the CARICOM states.
Mexico and CARICOM compete for the North American market in the tourism industry,
manufacturing, and data services. Under NAFTA, Mexico will be able to enhance its
advantages relative to the CARICOM countries, especially since the former already
benefits from its inexpensive labor, cheap energy, lower transportation costs, and
economies of scale. Mexico can now export the same products as the Caribbean


14 “The View from Washington: A Report on the NAFTA Discussions at This Year’s Miami
5, no. 4 (December 1993): 23.


16 Richard Bernal, “The Caribbean Free Trade Agreement, NAFTA and the Caribbean Basin
countries to the U.S. at reduced rates or duty free. This ability by Mexico wipes out the advantage provided by the CBI to the region, since the provisions governing duty elimination are superior under NAFTA than under the CBI, prior to the passage of the Caribbean Basin Trade Partnership Act (CBTPA) in May 2000, which will be discussed fully in later chapters.

In addition to investment and trade diversion, Caribbean leaders have suggested that other likely effects of NAFTA on the subregion include import penetration, worsening of trade deficits and relocation of productive capacity to Mexico, which all may combine to result in the contraction of economic activity for the economies. It is believed that if these conditions were to occur, there is the potential for the situation to escalate into serious economic, social, and political upheaval in the subregion.

There is increasing realization that because the Caribbean and the U.S. are in close proximity to each other, the effects of NAFTA in the former will most likely have an impact on the latter. Furthermore, economic problems in the Caribbean can also affect continuing degradation of the environment, ethnic, class and political conflicts within and among states in the region, and the spread of poverty-related diseases to other countries. In addition, an economic crises for the small economies can impede the economic development of other Caribbean states. For those who share the view that NAFTA poses a threat to the economic survival of the small Caribbean nations, the

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17 Ibid.
foregoing are some of the results they proffer as being inevitable consequences of the agreement.

Meanwhile, Canada's accession to NAFTA is not seen as likely to pose the same threat to the CARICOM countries as does Mexico's. A 1988 study conducted by the Conference Board of Canada concluded that trade under CARIBCAN - the free trade agreement (FTA) between the CARICOM countries and Canada - will not be altered by the then existing Canada/US Free Trade Agreement because of the uniqueness of the goods coming into Canada under the Program.\(^\text{18}\) Besides, it is reported that the expansion in trade resulting from US/Canada FTA will have a positive impact on personal income and corporate profits, which in turn will result in greater import demand in other areas. Thus, it is suggested that if CARICOM countries were to maintain their level of Canadian imports, as that figure increases, so will the level of exports from these CARIBCAN countries.\(^\text{19}\)

In addition, CARICOM sells ten times as much to the U.S. as it does to Canada. Based on 1990 figures, at least 43% of CARICOM exports wind up in the U.S., compared with 4.5% for Canada.\(^\text{20}\) As a consequence of these reasons, CARICOM leaders did not place much emphasis on Canada's accession to NAFTA as they did with Mexico's, which they saw as a threat to Caribbean interests particularly in certain

\(^{18}\) The Conference Board of Canada, "Impact of Canada-United States Free Trade on CARIBCAN Countries," A Report prepared by the Department of External Affairs, Ottawa, Canada (October 1988).

\(^{19}\) Ibid.

\(^{20}\) "The View from Washington," 23
strategic industries such as textile and apparel. These are areas in which CARICOM does not enjoy total duty free access to the U.S. market, even with the additional benefits provided in the March 2000 legislation signed by the U.S. Congress.

It has been suggested that the primary sector that will feel the negative effects of NAFTA within CARICOM will be the textile/apparel industry. This sector has developed to become an important source of foreign exchange for many member states. The industry experienced significant growth during the 1980s and 1990s in part as a result of the CBI which was implemented in 1984. The CBI has been credited for a "decade of unparalleled growth in trade between the U.S. and the Caribbean, acting as a catalyst for exports, investments and employment creation in the economies of the U.S. and the Caribbean nations, such as Jamaica."

As a CBI designated country, Jamaica made significant progress in attracting new investors, particularly in the textile industry. Between 1980 and 1995, Jamaica's garment exports, primarily underwear and hosiery, rose from less than US $10 million a year to nearly US $600 million annually, yielding an average annual growth rate of 28%. In 1989, apparel products led the way among the top manufactured product exported to the

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22 This legislation will be discussed more fully in later chapters.


U.S., accounting for 52% (up from 9%) of Jamaica’s manufactured goods exports to the
U.S.\textsuperscript{26} By 1994, textiles were responsible for 25% of the island’s labor force, and
constituted the largest non-traditional product. The industry grew to a $400 million a
year business and the nation’s second fastest growing economic sector.\textsuperscript{27}

Other CARICOM countries that are expected to experience some negative effects
in their textile/apparel industry as a result of NAFTA include Belize, Barbados, St. Kitts-
Nevis, St. Lucia, and Grenada. CARICOM leaders have warned that it will not be in the
best interest of the islands, and also of the U.S. and the rest of the hemisphere if these
negative effects of NAFTA were allowed to occur. They suggest that the economies will
experience further deterioration, a situation which can impact other nations in the
hemisphere, and one from which they have yet to recover as a result of the structural
adjustment programs beginning in the early 1980s.

As the world becomes more interdependent, it is increasingly difficult for other
neighboring states to remain insulated from what is occurring in the rest of the
hemisphere. One study by the InterAmerican Development Bank showed the effect of
growing interdependence among economies in the hemisphere by concluding that the
economic downturn in the Caribbean and Latin America during the 1980s had a negative
impact on the U.S. economy, particularly as a result of the dramatic reduction of the

\textsuperscript{26} Gregory K. Schoepfle and Jorge F. Perez-Lopez, “Export-Oriented Assembly Operations in the
Caribbean,” \textit{Trade Issues in the Caribbean} : 150.

\textsuperscript{27} Robert Selwitz, "CBI Nations Cry Foul When It Comes to NAFTA," \textit{Global Trade and
region’s imports from the U.S. The Bank estimated that while the Caribbean’s and the Latin American's loss of purchasing power during the period was about US $ 500 billion, consequential reduction in U.S. exports to the region during that same period ranged from between US $ 50 billion to US $ 130 billion, which may also have resulted in the loss of about one million jobs in the U.S.²⁸

Thus, CARICOM leaders warn that economic disaster for the Caribbean brought about by NAFTA could also have far reaching effects for the U.S. They predict that the U.S. could lose a valuable market resulting from the decline in Caribbean demand for its goods. American jobs could be lost, emigration from the Caribbean to the U.S. could increase, and so could the illegal drug trafficking industry between the islands and the North American mainland. Caribbean leaders also believe that there could be other social and political consequences which could increase instability and cause security problems for the U.S.

Prime Minister Patterson made the point that "it is in the interest of the U.S. to pay close attention to the effects of NAFTA, because of the need for continuing and consistent economic and social stability in the region."²⁹ One of the ways the leaders in the region think the situation could be helped is through the granting of a NAFTA parity-like arrangement, an issue that will be discussed in detail later.

Although there has not been total agreement with this viewpoint concerning the


²⁹ "The View from Washington," 23
effects that NAFTA will have on the economies in the region, some important non-CARICOM sources in the U.S. seem to support the view that there could be negative consequences. Preliminary studies by the World Bank concluded that NAFTA will have relatively minor effects on the Caribbean, but the sectors most likely to be affected would be textiles and clothing. The Bank has predicted that "after the end of 10 years, the annual loss could be in the region of $5 – 7 million (US) and that Jamaica could bear the brunt or about 80% of the loss", which would be about US $4 - 6 million per year.30

Nevertheless, in 1995 in a later report by the Bank, it was estimated that the total losses of the Caribbean countries resulting from NAFTA were most likely to be between US $35 million and $53 million; and economies to be affected would be the Dominican Republic, Jamaica and Haiti, with up to 45 – 60% of their exports displaced by Mexico.31 In a later study, the Bank estimated that more than one third of the US $12.5 billion worth of goods (1997 figures) exported to the U.S. annually from the Caribbean islands could be replaced by Mexican imports if the existing trade rules remain intact.32

A report commissioned by the United States International Trade Commission (USITC) on the potential effects of NAFTA on apparel investment in the Caribbean


32 Rohter, “Impact of NAFTA Pounds Economies of the Caribbean.”
Basin countries, found that NAFTA “will improve the relative costs competitiveness of Mexican producers compared with their counterparts in the Caribbean and Central America”, and that it will introduce incentives that will tend to favor shifts in apparel investments from the Caribbean countries to Mexico. This issue will be further examined in greater detail under "The Threat That NAFTA Poses to CARICOM" in a later chapter.

Significance, Rationale and Purpose of the Study

This study will examine the impact of NAFTA on the textile/apparel industry in Jamaica. This country has the largest apparel industry in the CARICOM group, and is the one that benefited most from the CBI. Jamaica also wields a significant amount of political and economic influence in the region as one of the largest economies in the grouping. Additionally, there are relatively few studies conducted on the impact of NAFTA on the textile/apparel industry in the Caribbean Basin. David Lewis observed that in the early stages of NAFTA discussions, all analyses and references to NAFTA have concentrated on its likely impact on the North American economies (U.S.A, Canada, and Mexico). He found that “other than the Puerto Rican Resident Commissioner Jaime Fuster’s November 21, 1990 . . . statement for the record to the Subcommittee on Trade . . . there have been no references to the impact of NAFTA on

the economies of the Caribbean Basin. Since his observation, there have been studies and reports on the "potential" impact and effects of NAFTA on the CARICOM states.

However, in-depth studies of the effects on the textile and apparel industry in CARICOM are somewhat limited. This sector within CARICOM benefited most from the CBI, and is the one in which Jamaica had the largest and most significant level of investment. Additionally, since Jamaica is one of the largest and most politically influential members of the CARICOM group, it is appropriate to examine the impact of NAFTA on that island's industry.

This study will attempt to determine the validity of the concerns, predictions, and fears expressed by CARICOM leaders and others regarding the negative impact on CARICOM economies, and investigate whether these predictions are materializing more than five years after the signing of the Agreement. If this is indeed the situation, then a valid case can be made in support of the recently passed CBTPA, that grants the CBI countries' textile/apparel industry access equivalent to Mexico's. This focus on Jamaica will help to provide an insight into how other countries could deal with a similar situation within their industries.

The study can also provide an insight into what these small economies are likely to confront if and when they are integrated into the larger Free Trade Area of the Americas (FTAA), the proposed hemispheric trading bloc encompassing all the countries in the Americas (excluding Cuba), by 2005. It will provide an understanding

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of how the economies can strategically position themselves to compete in an increasingly globalized and liberalized world trade system, where preferential arrangements are gradually being eliminated.

**Premise of the Study**

The implementation of NAFTA in 1994 is being credited by some segments of Caribbean and U.S. policy makers and industry spokespersons as having had, and continuing to have a negative impact on the textile/apparel industry in Jamaica. It has been charged that the free trade agreement between Canada, Mexico and the U.S., has decreased the rate of growth in the island's textile/apparel sector, one in which growth was promoted and encouraged through the establishment of the CBI. This decrease in the rate of growth is supposedly manifested through the decline in the industry's levels of U.S. investment, foreign exchange, contribution of its earnings to the island's GDP (Gross Domestic Product), exports, employment, and in the number of plants in operation and that have been opened. Furthermore, the decline is also reported to be marked by an increase in the number of textile/apparel plants relocating to Mexico from the island, and in the number of plant closings.

The growth of the textile/apparel industry in Jamaica was a direct result of the country's focus on an export-oriented trade strategy adopted in the 1970s, and stimulated by the enactment of the preferential trade agreement between the U.S. and the countries of the Caribbean Basin. An important aspect of this program was the intent to stimulate the flow of U.S. foreign investment to the region, and to spawn the growth of export oriented industries. However, with the implementation of NAFTA, it has been predicted
that a reversal in the rate of growth of the sector will and has occurred. Six years after NAFTA, this issue is being examined in the present study.

**Hypotheses**

- Free trade generates economic development
- Preferential trade is appropriate for small economies
- NAFTA is both free trade within a bloc and preferential trade against those countries outside the bloc
- NAFTA has had a negative impact on the textile/apparel industry in Jamaica

**Research Methodology**

The study will essentially be an investigative exercise to find out whether the effects that had been predicted by many Caribbean government officials, some U.S. lawmakers and textile/apparel industry officials regarding the establishment of NAFTA and its impact on CARICOM countries, are indeed occurring. It will begin by providing an overview of the relationship between free trade and economic development with a comprehensive review of the classical argument that free trade promotes economic development. The discussion will focus on why the classical theory that justifies free trade and a liberalized global trade system is pertinent to small economies, and in this case, the CARICOM nations.

However, since the CARICOM countries' trade relations with developed countries have been historically conducted under a system based on preferential arrangements, the study will explore the rationale for this type of trade regime as a necessary element for the development and survival of these countries within the context
of the classical theory. The discussion will therefore, examine NAFTA as an arrangement that promotes free trade, while at the same time possessing some attributes of a preferential agreement.

Finally, the study will conclude with an investigation of NAFTA's impact on the CARICOM economies and in particular on the textile/apparel industry in Jamaica. The analysis will examine the importance of trade for CARICOM economies, and the preferential arrangements which govern trade between the U.S. and CARICOM, mainly the General System of Preferences (GSP) and the CBI. (While some other preferential arrangements that are important to the CARICOM states will be briefly mentioned, the main thrust will be on the CBI). Since the CBI has been credited with contributing to the growth of the manufacturing sector in CARICOM during the period leading up to NAFTA, a detailed study of the CBI will be conducted to determine its contribution to the development of the textile/apparel industry in Jamaica. The growth of the industry will be tracked, beginning from the pre CBI period to the late 1990s, covering the years from the early 1980s to 1999. Data from government sources (both U.S. and Jamaican governments) will be collected on the following dependent variables/indicators, and will be used to illustrate the growth (or decline) patterns in Jamaica's textile/apparel industry:

- level of U.S investment in the Jamaican textile/apparel industry
- foreign exchange earned from the textile/apparel industry
- contribution of earnings from the textile/apparel industry to Jamaica's GDP
- level of textile/apparel exports to the U.S
• number of textile/apparel plant openings in Jamaica

• number of textile/apparel plants in operation in Jamaica

• number of textile/apparel plant closings in Jamaica

• percent of the population workforce employed in the textile/apparel industry over the period considered.

These variables/indicators will be collected from data obtained from sources including government agencies, national and international organizations such as:

• the United States Department of Trade and Commerce

• the United States International Trade Commission (USITC)

• the United States Agency for International Development (USAID)

• Office of U.S. Trade Representative (USTR)

• The U.S. Labor Department

• The U.S. State Department

• the Jamaican Ministry of Industry, Commerce and Technology

• Jampro (the Jamaican export promotion agency)

• The Statistical Institute of Jamaica

• The Planning Institute of Jamaica

• The Organization of American States

• The Inter-American Development Bank

• The World Bank

• NAFTA Secretariat
• The CARICOM Secretariat
• The Textile and Apparel Institute in Jamaica
• The American Apparel Manufacturers Association
• The American Textile Manufacturers Institute
• The Jamaican Gleaner (newspaper).

An analysis of the variables/indicators would be conducted utilizing graphs and tables to illustrate growth and development in the industry in the pre CBI period, the CBI period up to the signing of NAFTA, and the post NAFTA period up to 1999. Growth and development in the industry will be calculated by the percentage change (PC) in the variables/indicators$^{35}$ which will be displayed by year in a graphical and tabular format for interpretation and analysis of the results. Both percentages and absolute numbers will be utilized in the analysis of the variables.

The study will also take a brief look at the increase in U.S./Mexico trade and the growth in the textile/apparel industry in Mexico in terms of exports and export earnings during the same period examined for Jamaica.

**The Time Frame**

The period under examination for the study will span from 1980 to 1999$^{36}$. The data collected will be analyzed based on 3 periods:

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$^{35}$ Percentage Change (PC) will be calculated as \((V2 - V1)/V1 \times 100\), where \(V2\) and \(V1\) are the ending and beginning values respectively of the different variables.

$^{36}$ Where figures for 1999 are unavailable, the latest documented figures will be presented.
1) 1980 to 1984, which will be considered the pre-CBI period. This time frame will provide an insight into the status of the industry prior to the implementation of the CBI;

2) 1984 through 1994, which represents the post CBI period. This span will allow an analysis of the industry as a result of the preferential agreement. It would show the increase in the rate of growth of the textile/apparel sector;

3) 1994 through 1999, which will be the period in which the effects of NAFTA will be examined. The changes in the dependent variables during this period will assist in providing a possible answer to the question of whether NAFTA did indeed have a negative impact on the island's textile/apparel industry.

The entire period from 1980 through 1994 will show the growth pattern or trend in the industry which had occurred before and after the implementation of NAFTA.

The results of the study will help to confirm or refute the claim that NAFTA has had a negative impact on the textile/apparel industry in Jamaica. A negative impact will be represented by either a negative PC or a decline in the pattern of growth exhibited by the following indicators in the post NAFTA period as compared to the pre NAFTA years:

- level of U.S. investment in the textile/apparel industry
- foreign exchange earned from the textile/apparel industry
- contribution of textile/apparel industry earnings to Jamaica's GDP
- level of textile/apparel exports to the U.S.
- number of textile/apparel plant openings
• number of textile/apparel plants in operation
• percent of population workforce employed in the textile/apparel industry

In addition, a positive PC or an increasing growth trend in the post NAFTA period in the number of textile/apparel plant closings, would be interpreted as a negative impact on the industry:

However, if the results indicate that these trends or pattern of increase/decline began prior to the implementation of NAFTA, then the study will conclude that NAFTA, while it could have played a role, cannot solely be held responsible for the decline currently being experienced in the industry in Jamaica. If the analysis shows the former - that the decline in the industry coincided with the implementation of NAFTA and thus was most likely as a result of the FTA, ceteris paribus - then the claims that CARICOM leaders and others have made will appear to be credible ones. Such results provide the basis for these advocates to validate the need for the enhanced CBI trade package - one that allows the CBI beneficiaries to utilize the arrangement to increase their competitiveness in the world market, while maintaining the arrangement until such time that they can diversify their economic bases, and develop alternative strategies that will allow them to compete more effectively with more developed economies.

Such results will also add legitimacy to the concerns of the CARICOM leaders and others who predicted that the socioeconomic and political fallout on the economies of the subregion could be disastrous for the nations in terms of rising unemployment, reduced social services, increase in the level of emigration from the region to the more prosperous North American states, increased crime, growth of the narcotrafficking
industry, a decrease in the demand for U.S. exports, and an overall increase in economic and social hardship for the islands. This situation could also lead to political instability in the region if an enhanced trade arrangement was not implemented.

**Limitations and Explanations**

As is the case with many developing countries, complete sets of data and information were not readily available or accessible for all of the dependent variables being examined. An effort was made, however, to obtain all necessary data from various sources.

The analysis of the effects of NAFTA on the textile/apparel industry in Jamaica was somewhat complicated by the issue of how to separate causality from association, and how to eliminate the effects of multiple influences on the industry. However, in regards to assessing the impact, it was possible to employ different alternative approaches to analyzing the issue, two of the most frequently used for this type of study being the "before-after" approach, and the "with-without" approach.\(^{37}\)

The "before-after" approach will be the one utilized in this study because it will better facilitate the analysis and comparison of the industry's performance before and after the implementation of NAFTA. While it is a simple instrument to apply, its major limitation is that it will attribute all observed changes after NAFTA to the implementation of NAFTA, and can therefore bias the results. In order to minimize the

risk of this occurring, the study will assume ceteris paribus conditionalities. In addition, due to the nature and number of the indicators employed, the impact of the limitation inherent in this approach is lessened. Additionally, any external circumstances that can be identified during the period under investigation that may impact or bias the results will be addressed during the analysis.

The "with-without" approach is less suitable for this study since the method will compare the performance of industries affected by NAFTA with one that may not appear to be. The problem here is that in the case of the industry that may not be affected by NAFTA, other outside forces or programs may influence the performance of that industry.

Outline of Chapters

The first chapter includes the introduction and an overview of current global economic developments and the challenges that face the CARICOM economies, particularly in the area of trade. Chapter 2 provides the conceptual framework and discusses the classical free trade model and the contribution of free trade to economic growth and development. The literature also deals with the importance of trade to small economies such as the CARICOM states. Chapter 3 gives a historical perspective of the CARICOM economies, and the socioeconomic and political challenges they face in light of the global economic changes occurring in the last two decades. Chapter 4 looks at the major preferential trade arrangements which govern CARICOM trade, and discusses the various ones that CARICOM countries have enjoyed for the last two decades. A detailed discussion of the CBI is provided in this section. Chapter 5 goes into much detail on
NAFTA, and the challenge it poses for the CARICOM states in reference to the textile/apparel industry and the erosion of preferential benefits to CARICOM. An analysis of NAFTA as a preferential arrangement within a bloc, and as a free trade arrangement outside the bloc is provided. In Chapter 6, the Jamaican economy is reviewed in detail, especially the development of the manufacturing sector, including the textile/apparel industry. Chapter 7 analyzes the data collected about the industry in Jamaica, and how it is being affected by NAFTA. It summarizes the findings and comments on recent developments that have occurred that are germane to the study. Chapter 8, the conclusion, provides possible alternative strategies for development that CARICOM economies can pursue in the changing international trade environment.
CHAPTER 2
CONCEPTUAL FRAMEWORK

The Classical Free Trade Model: Free Trade Generates Economic Growth and Development

The importance of trade as an instrument for economic growth and development has long been espoused by both classical and neoclassical theorists. The earliest model of international trade is based on the principle of comparative advantage developed in the early 18th century by a group of English economists, the most renowned being David Ricardo, whose name is frequently associated with the theory. Comparative advantage has been the foundation of the theoretical rationale for the development of international trade structures, as well as how trade should be determined.1 According to the theory of comparative advantage, world trade is increased and countries gain when they specialize in products in which they have greatest the relative efficiency, and export them in return for goods in which their relative advantage is least.2 This case for increased international specialization and trade based on the principle of comparative advantage relied on a simple static model involving basically two countries, two commodities, one or more...


factors of production, constant returns to scale, full employment, and perfect competition.3

In the early part of the 20th century, Swedish economists Eli Hecksher and Bertil Ohlin, further elaborated on the Ricardo version of trade theory and comparative advantage. Their model reiterated that it was possible for all countries to gain by engaging in free trade. As each nation specializes in production according to its comparative advantage, each can "enlarge its consumption capacity without technical change or an increase in resources".4 This theory played an important role in third world countries' focus on production of primary products for export, while serving the political interests of "colonizing nations searching for raw materials to feed their industrial expansion and for market outlets for their manufactured goods."5

The classical theory suggests that free trade promotes competition, allocates resources in a more efficient and effective manner, and stimulates economies of scale in areas where the less developed countries have a comparative advantage. All these factors will combine to result in increased productivity.6 Consequently, there will be a

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lowering of production costs and subsequently prices, and the incentive to improve quality will increase.⁷

Classical theorists thus emphasize the importance of free trade involving an open and outward-looking international trade policy as a requirement for non-industrialized countries to achieve growth and development.⁸ The earlier proponents of this trade policy usually emphasized the static benefits that could be derived from engaging in such a strategy. Some of the earlier proponents of free trade such as economists Adam Smith, David Ricardo, Thomas Malthus, and John Stuart Mill have been credited with contributing to laying the foundation for what is now considered the most acceptable and popular trade theory of modern growth and development. Adam Smith wrote about the static gains from trade as being a source of profits which could facilitate capital accumulation and growth. According to Smith, trade stimulates productivity which leads to economic growth by widening the market, permitting greater division of labor and a higher level of domestic productivity.⁹ John Stuart Mill's contribution to the body of literature centers around the way in which trade allows for a more efficient use of world resources:

... A country which produces for a larger market than its own, can introduce a more extended division of labour, can make greater use of machinery, and is more likely to make inventions and improvements in the process of production . . . . ¹⁰

⁷ Todaro, Economic Development, 506.
⁸ Ibid., 425.
¹⁰ Ibid., 98.
However, criticism of this model had been recorded in recent years in that it is viewed as having focused primarily on the static gains, that it "presents only a timeless 'cross-section' view of comparative costs and fails to take into account dynamic elements."\(^{11}\)

As the body of work on trade continued to expand, economists began to espouse other benefits that result from a free trade policy - these they referred to as dynamic benefits. As a result, trade has been promoted as an agent for growth and development through both the static and dynamic benefits that accrue to an economy, in particular to those of the small non-industrialized nations with which this study is concerned.

With the emergence of the neoclassical school, the benefits of trade have expanded beyond static gains which the classical model promotes, to include the dynamic benefits which are considered to be significant, particularly as they relate to the small non-industrialized economies. In recent years, it is dynamic gains on which the focus is placed as far as the issue of trade benefits are concerned. In the neoclassical model, exports are considered as the key stimulus to

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\cdots \text{greater capacity utilization, greater horizontal specialization, increased familiarity with and absorption of new technologies, greater learning by doing as a result of expanded output levels, and the stimulation effect of having to achieve international price and quality levels} \cdots \]

\(^{12}\)

It has been suggested that since trade increases the national incomes of all participants, it allows a higher level of savings, capital formation, and income growth

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\(^{12}\) Kirkpatrick, "Does Trade Liberalization," 26-27.
than would not be possible without trade. Proponents of free trade cite a number of dynamic benefits and advantages of the free trade model. Trade facilitates the transfer and provision of essential capital goods, raw and semifinished materials required for increasing output; it stimulates competition and thus increased productivity; and it attracts capital through international investment. In addition, it helps to overcome the disadvantage of small domestic markets.

Trade also plays an important role in the dissemination of technological knowledge, the transmission of ideas, "the importation of know-how, skills, managerial talents and entrepreneurship." Proponents also consider trade as "the best antimonopoly policy" guaranteeing the maintenance of a healthy degree of free competition, and limiting the activities of inefficient monopolies.

International trade is considered to play a more important role in small countries' economies than in larger ones. This is due to the fact that exports constitute a small proportion of outputs in most industries in large economies while the opposite is true for small ones:

... countries which are small in population and national output do not have the range of industries to provide the services of engineering and design which aid the development of internationally marketable commodities. ...

14 Ibid., 123.
16 Ibid., 110.
In most small underdeveloped economies, a large percentage of income is spent on imports, with even a larger portion of their output being exported. This occurs to a larger extent with developing than with developed countries.\(^{18}\)

**Trade as a Catalyst for Development in Small Non-Industrialized Economies**

According to the classical theory of trade and development, developing countries are considered to have a competitive advantage in primary products. The model further suggests that these less industrialized nations can develop by concentrating on producing "labor intensive goods and land intensive primary products", and exchanging them for more capital intensive imports from the more developed economies.\(^{19}\) As a result of the gains that could be achieved, trade could stimulate economic development in these countries by enabling the import and export sectors "to furnish vital inputs to development, provide revenues to eliminate the debt problem, and ultimately promise a better standard of living."\(^{20}\) In developing countries which suffer from lack of foreign capital and technical expertise, trade is therefore seen to play an important role in attracting these invaluable resources to the countries. Another important benefit associated with free trade to developing countries is the generation of much needed foreign exchange which these nations need for socioeconomic development programs within their societies.

\(^{18}\) Haberler, "International Trade and Development," 104.

\(^{19}\) Oman and Wignaraja, *The Post War Evolution*, 70.

The case for export led growth in developing nations appears to be somewhat convincing. Access to the rich countries' markets enables small, non-industrialized economies to overcome the handicaps of a limited home market which is constrained by inefficient purchasing power.\textsuperscript{21} Trade allows these nations to access the mix of capital, technology and know-how of transnational corporations, and the earnings gained from exports constitute a source of much needed foreign exchange used for financing development.\textsuperscript{22}

From an historic perspective, trade appeared to have acted as an engine of growth in the 19\textsuperscript{th} century for the present industrialized countries.\textsuperscript{23} It can therefore be understood why some developing countries in the immediate post World War II period embarked on their aggressive path to achieve socioeconomic development, utilizing the principles of comparative advantage and free and open trade as their road map. For some time during the 1950s and 1960s, many Third World countries began posting impressive growth rates, thereby adding credence to the classical and neoclassical trade theories. However, as these countries began facing declining growth rates a few years later, and as social conditions in many of these nations showed no signs of improvement (in some cases, they declined), the euphoria about free trade and its contribution to development began to dissipate in some regions of the Third World.


\textsuperscript{22} Ibid.

The principle of comparative advantage began coming under increasing scrutiny and skepticism from different quarters, particularly from theorists from the developing countries. These theorists began to uncover several shortcomings in the classical model as it related to small developing economies, most of which had been tied in a colonial relationship with the industrialized nations for many years. Questions were being asked as to why trade had not transmitted the type of growth patterns in the Third World as it had been credited with in the industrialized nations.

Among the shortcomings in the model that these detractors established were:

... short term instability, long run costs, and the irrelevance of the two-country, two-factor, two-commodity model in a real world of international factor movements, capital accumulation, changing technology, and intermediate goods... \(^{24}\)

Another criticism that was directed towards comparative advantage was that factor endowments are not fixed:

... physical capital, human resources, and even natural resources change with time and with technological advance... \(^{25}\)

Bruce Herrick and Charles Kindleberger offer some further explanations as to why the static model of comparative advantage is limiting:

While land and natural resources may remain relatively unchanged in the short and intermediate run, capital stock and labor force grow at steady and usually disparate rates... thus at any given time, a country may lose its comparative advantage in a product as time passes... \(^{26}\)

\(^{24}\) Ibid., 414.

\(^{25}\) Pincus, *Trade, Aid and Development*, 126.

These two authors further posit that comparative advantage can be changed by international movements of capital and labor:

... since diffusion of technology occurs only slowly, trade may be explained at any given time not solely by differences in factor proportions but by differences in technology as well. ...technological change may undermine a country's basis for specialization ...²⁷

Raul Prebisch, an economist with the United Nations Commission for Latin America (UNCLA) in the 1950s, became an eminent detractor of the classical model of trade. Along with others challengers such as Gunnar Myrdal, he proposed several reasons why the classical model of trade was not working for these small developing nations. Myrdal also questioned the classical model concerning trade as an agent for development, and suggested that there were systematic forces at work in the developed world that tend to diminish the benefits of trade to the small underdeveloped nations.²⁸

These economies are profoundly different from the industrialized countries in various ways, including socially, politically and culturally.

It was suggested that the failure of free trade in boosting sustained economic growth in the underdeveloped economies was partly as a result of societal circumstances, (for example land tenure, and credit systems), that together maintained the prevailing economic pattern and were resistant to change.²⁹ Myrdal also elaborated on the fact that

²⁷ Ibid., 421.
²⁸ Pincus, *Trade, Aid and Development*, 126.
²⁹ Ibid., 123.
the growth in free trade had not narrowed the income gap between industrial countries and the underdeveloped nations, but that this trade tended to widen the gap:

... if left unregulated, international trade and capital movement would thus often be the media through which the economic progress in the advanced countries would have backsetting effects in the underdeveloped world...  

Myrdal arguments against trade as an agent for long-term growth were based on "low price and income elasticities of demand for primary exports". The small economies' dependence on primary commodities for exports was seen to have several drawbacks such as the instability of returns from exports and the difficulty to adapt quickly to changing events.

One of the most forceful arguments that was used to explain the failure of the classical model in promoting sustained growth levels in the underdeveloped economies, particularly those in the Latin American and Caribbean region, was the terms-of-trade theory most closely associated with Raul Prebisch. He offered that the problem the developing countries faced when trading their primary products for manufactured goods from industrial countries was structural. He explained that the Third World economies were being hurt by the downward tendency in the prices of primary products; and that

30 Ibid., 126.
31 Ibid., 127.
the underlying economic argument that facilitated the downward trend in the terms of trade for developing countries involved the "differing elasticities of demand for primary commodities and manufactured goods",35 and the failure of the underdeveloped economies to benefit from technological progress.36

Another problem with the trading relationship between the developed and the underdeveloped economies that was cited was the fact that the underdeveloped countries' exports were priced competitively while the developed countries enjoyed monopolistic markets.37 Prebisch went on to predict that the demand for primary commodities was likely to experience less of an increase than the demand for manufactured goods, due partly to the lower income elasticity of demand for the primary agricultural products, and to the technological advancement of the industrial countries exporting the manufactures.38

By the late 1960s, most developing countries facing declining socioeconomic conditions became disillusioned with the free trade model and reliance on their comparative advantage in producing and trading primary exports. They began to look at alternate models of development and the challenge for them was to come up with a model that took into consideration their unique circumstances. They were faced with basically three options:

35 Pincus, *Trade, Aid and Development*, 129.
36 Ibid.
37 Ibid.
1) relying on primary product exports, 2) developing manufacturing industries that would produce for protected home markets (import substitution industrialization - ISI), and 3) developing manufacturing industries producing for export to the industrialized countries (export oriented policies.)

Many developing countries came to believe that continuing to specialize in the production of primary commodities, while it may maximize welfare in the short run, would relegate them to a subordinate position vis-a-vis developed nations, and keep them from reaping the dynamic benefits of industry, and therefore maximize their welfare and growth in the long run. The countries wanted to access some of the dynamic benefits from embarking on industrial production which included a more trained labor force, more innovations, higher and more stable prices for the nations' exports, and higher income and employment for the citizens. They therefore made a deliberate effort to industrialize rather than continue to specialize in the production of primary commodities - food, raw materials, and minerals - for export, as was prescribed by the traditional free trade model.

The ISI option thus gained popularity and was embraced by many developing countries throughout Latin America and the Caribbean as an alternative to the export of primary products.


41 Ibid.

42 Ibid.
**The ISI Model Adopted by Developing Countries in the Late 1960s as a Model for Development**

Prebisch had advocated a model of development based on ISI, where developing countries would initially substitute domestic production for previously imported consumer goods. In this first stage of ISI, the countries concentrated on simple, labor-intensive consumer goods, such as clothing, shoes, radios, bicycles, and other household goods. The second stage of this development model was designed so that domestic product would replace a wider range of more advanced manufactured items. Therefore, imports of intermediate goods such as steel and petrochemicals, as well as producer and consumer durables which are capital intensive and require large economies of scale, were substituted by domestic production. These goods however, do not create employment. Replacing imports of these products with domestic production also required much higher protection and generally led to much greater inefficiencies. An integral part of this inward looking strategy that was aimed at developing a modern industrial sector, was the protection of the new infant industries through high tariffs and quotas, government planning and other direct incentives which, when combined, had a very strong anti-export bias effect.

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45 Ibid.

ISI strategy had both political and economic appeals for developing countries. It was felt that producing domestic goods to replace imports could reduce the balance of payments, and also lead to industrialization. Politicians were also able to utilize the process of granting licenses to trade in certain imports to reward political allies and punish foes. Another political appeal was based on the nationalistic political environment at the time, particularly throughout the countries of Latin America.

As advocates of the free trade model attacked this newly embraced strategy by many developing countries, ISI proponents countered that the leading industrial countries at one time also utilized a form of this model during a phase of their industrialization process, citing as examples the cases of the United States and Japan. They pointed out that the U.S. practiced ISI from the Civil War until the end of World War II, after which time most American firms no longer needed protection against imports. In the case of Japan, the country embarked on its path to becoming the world leader in steel, automobiles and electronics beginning in the 1950s, by employing heavy government protection against imports.

By the late 1970s and early 1980s, the verdict on ISI was beginning to be recorded throughout the world. The ISI strategy, promising much, seemed to be an overall failure. Various reasons were advanced for the less than sterling performance of the program. It was argued that that ISI industries became overly secure as a result of

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49 Ibid.
the protective tariff walls and immune from competitive pressures, enabling them to remain inefficient in both cost and production.\footnote{Todaro, Economic Development, 494.}

Inefficient domestic industries were spawned resulting in high prices for the domestic consumers. Many infant industries were afforded unusually high levels of protection which caused them to become overly capital intensive with relatively little labor absorption.\footnote{Salvatore, "International Trade Policies," 250.} In these countries where there is an abundance of labor, this situation served to aggravate the problem of unemployment. In many countries, overurbanization became a serious problem as thousands of agricultural and rural workers migrated to the cities in search of jobs in these newly emerging industries. However, since these factories were geared to be more capital than labor intensive, mass unemployment in the cities resulted, often giving rise to deteriorating living and health conditions and in some cases, escalating into explosive social situations.

The efforts to industrialize through ISI also led in many cases to the neglect of agriculture and other primary sectors, resulting in the decline of earnings from traditional exports. Various developing countries, for example Brazil, which embarked on a very aggressive ISI policy, were forced to begin importing food products which they had previously exported.\footnote{Ibid., 251.}
Another problem associated with the ISI policy was the overvaluation of domestic currency. This only served to encourage imports while discouraging exports, and often resulted in a chronic shortage of foreign exchange aggravating the balance of payment problems. To address the lack of foreign exchange resources, governments turned to a policy of rationing which not only favored the importation of machinery and other required inputs such as fuel, food and other raw materials, but also led to black markets, corruption and greater efficiencies.  

It was further argued that one of the main reasons why the ISI strategy failed was due to the fact that the main beneficiaries of the process were the foreign firms that were able to circumvent the tariff walls and take advantage of liberal tax and investment incentives. Part of the ISI strategy involved the governments subsidizing the importation of capital goods and intermediate products by foreign and domestic companies.

Developing countries that focused on import substitution, for example many in Latin America and Africa, were seen to have fared worse than those which followed an export oriented policy, as the ones in Asia. By the mid 1980s, the inward looking strategy of import substitution was being blamed for creating dual economies, negatively impacting the agricultural sector, worsening the balance of payments deficits, and

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53 Ibid.


55 Ibid., 495.

56 Ibid.
causing rapid urban growth with accompanying political instability in many countries.\textsuperscript{57} Neoclassical theorists indicated that ISI had interfered with the natural process of economic development based on comparative advantage.\textsuperscript{58} The disenchantment with the ISI strategy and the failure of the Soviet system as an alternative model, led to the resurgence of the neo-classical approach as the dominant school of development beginning from the 1980s onwards,\textsuperscript{59} with an emphasis on export promotion as the strategy to development.

**Export Promotion: Another Option to Promote Third World Development**

The export led strategy adopted by most of the developing countries that began abandoning the failed ISI model, focused on new exports of manufactured goods to the industrialized countries.\textsuperscript{60} Advocates of export promotion of both primary and manufactured goods, espouse the benefits of this policy by citing the efficiency and the growth benefits of a free trade policy and its resulting competitive tendencies. They also emphasize the importance of and gains from substituting large world market for small domestic ones.\textsuperscript{61} "The distorting price and cost effects of protection, and the tremendous success of the East-Asian export-oriented economies of South Korea, Taiwan, Singapore


\textsuperscript{58} Oman and Wignaraja, *The Post War Evolution*, 67.

\textsuperscript{59} Ibid.

\textsuperscript{60} Lindert, *International Economics*, 272.

and Hong Kong" (which to a large extent outperformed the followers of the ISI model) were also evidenced as reasons why this strategy was highly recommended.62

This newly adopted strategy involved replacing quantitative restrictions with tariffs, reducing and simplifying import tariffs and import taxation, reducing impediments to exports, as well as eliminating or reducing currency over-valuation.63 These measures were geared to stimulate economies of scale, and serve as a catalyst for the flow of investment and advanced technology from abroad.64 This shift to export led promotion was part of the trade reform process that neoclassical theorists urged developing countries to adopt and stick with following their experimentation with ISI. In the neoclassical analysis, protection of industries has a minimal role as an instrument for promoting economic development. The view is that import competition "disciplines" domestic producers, forcing them to improve their efficiency performance, and "results in the contraction of inefficient sectors and the expansion of new efficient ones."65

The lowering of tariff barriers would also serve to shift incentives in production towards tradables and exports and in the process lead to an improvement in the way resources are allocated.66 P.M. Romer explains this strategy for development in his Endogenous Growth Theory which calls for trade liberalization rather than trade

62 Ibid.


64 Ibid.

65 Kirkpatrick, "Does Trade Liberalization", 34.

66 Ibid.
restrictions. The Endogenous Growth Theory explains the relationship between international trade and long-run economic growth and development by advancing that lowering trade barriers will speed up the rate of economic growth and development in the long run. The theory further asserts that developing countries will be able to absorb technology developed in advanced nations at a faster rate than if they had a lower degree of openness, and the benefits that could be received from research and development would be greatly increased.

It has been acknowledged by traditional trade theory that the late-comers and successors in the process of development and industrialization will have the advantage in that they can learn from the experiences, successes as well failures, and mistakes of the more industrialized nations. They believe that today's non-industrialized nations have a constantly growing store of technological know-how that they can benefit from.

Romer explains that this type of trade system will generate larger economies of scale in production, and will reduce price distortions which will result in a more efficient use of domestic resources across sectors. Other benefits from the process include a greater specialization and more efficiency in the production and use of intermediate

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69 Ibid.


inputs, which will subsequently result in a more rapid introduction of new goods and services.72

Export led promotion policies and strategies have thus been increasingly adopted as the model to be followed by developing countries. However, the course has not been without roadblocks for the small exporting countries. Industrial nations have not fully accommodated the efforts of developing countries with smaller economies to raise their exports. The larger economies have used non-tariff barriers on a greater percentage of goods coming from developing countries than on those coming from other industrial nations.73 It is also worthwhile to note that the highest tariff rates which are applied, are on products in which the developing countries enjoy the most comparative advantage as are the cases with textiles, apparel and footwear.74

These type of practices contributed to the developing countries' campaign for a "new international economic order" (NIEO), an effort which formally began at the June 1974 General Assembly of the United Nations. The NIEO encompassed a number of issues including international agreements to raise and stabilize primary product prices, greater ease in technology transfer, and easier access to the markets of the larger economies for manufactured goods from the smaller nations.75 Another important initiative that was taken by the smaller developing countries was the call for the

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72 Ibid.


74 Ibid.

75 Ibid., 275.
preferential arrangements, which these nations had established bilaterally with their industrialized trading partners, to become a formalized part of the global international trading system, as those that had been recognized in GATT.

**Preferential Arrangements or Special and Differential Treatment: Is It Necessary for Small Developing Economies?**

Since the early 1960s when most of the former colonies began gaining their independence from European nations, the issue concerning special and differential treatment has been at the forefront of discussions concerning how foreign trade can be a more effective instrument of development. The push by these developing countries for preferences from the industrialized countries escalated at the first United Nations Conference on Trade and Development (UNCTAD) in Geneva in 1964, when a group of developing countries stressed the need for more equitable treatment in international trade. Developing countries advocated preferential treatment for exports of their products to more advanced countries as a matter of justice and equity - that countries of unequal levels of development cannot be treated in the same manner.

The idea of establishing a global framework of trade preferences and other trade promoting measures to facilitate the expansion of trade among developing countries had as its objective "promoting the development of national production and mutual trade". It is felt that such arrangements will quicken industrialization by offering the Least Developed Countries (LDCs) "the near equivalent of a protected infant industry market in

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the North, as well as the possibility of economies of scale in production arising from the size of the market. The LDCs considered the principle of nondiscrimination or most-favored nation treatment in international trade as unfair and inequitable.

Special and differential arrangements, however, had been in existence for many years dating back to the imperial preference system among countries such as those of the former British Empire, the French Union, the Netherlands, Belgium and the U.S. and their colonies or dependencies. These arrangements were part of the global trading system that emerged in the latter part of the 1940s in an effort to design a new international trading system after World War II. They were also incorporated into the European Free Trade Association (EFTA) with regard to Portugal, in the European Community with respect to some Mediterranean countries. In the case of France, for example, as its associated overseas territories or colonies began gaining political independence during the early 1960s, their unique trading arrangements with France included these type of arrangements and were formalized in the Yaounde Convention.

Thus preferential arrangements have been an important element of trade relations not only between industrialized and poor countries, but also among developing countries themselves, for example in various African integration schemes, and among members of

77 Pincus, *Trade, Aid and Development*, 198.

78 Ibid., 7.


most integration groupings as in those throughout Latin America and the Caribbean. These two types of preferential systems - between industrialized and developing countries, and among developing countries - encompass respectively preferences by industrialized countries to developing economies on a non-reciprocal basis, customs unions and free trade areas which offer duty free entry to members only.

By the 1960s, the call for preferences and special and differential treatment in trade took on a new dimension. The newly independent countries began to assign to trade a special role in the process of development for themselves. Preferential treatment as promoted by the developing nations was presented as a means of assisting these countries to "catch up" with the advanced nations by expanding their exports and thus increasing earnings. The arrangements were also presented as a way of enabling them to establish infant industries by giving the preferential access to larger markets so that economies of scale could be achieved. The less developed countries sought nonreciprocity in trade negotiations, and preferences for their manufactured, semimanufactured, processed and semiprocessed goods.

Through the advocacy of the developing nations, a system of trade preferences and special and differential treatment was incorporated into the GATT under the General

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82 Pincus, Trade, Aid and Development, 197.

83 Ibid.

System of Preferences (GSP) and approved by consensus during the United Nations Commission on Trade and Development II (UNCTAD) held in New Delhi in 1968. It "constituted the most important application of differential treatment in international trade."85 Until 1979, these arrangements were considered to be deviations from the most-favored-nation norm, but with the adoption of the Enabling Clause during the Tokyo Round of negotiations, a legal basis for preferential treatment was established within GATT.86

The basic principles governing the GSP are that it is generalized, being applied by all preference-giving countries to all developing countries; that it is non-discriminatory with all developing countries being covered and treated equally under the schemes; and that it is non-reciprocal, meaning that beneficiaries are not required to give corresponding concessions in exchange for being granted GSP beneficiary status.87

The preferential arrangements between developed and developing countries are mainly of two types: 1) those that provide special protection to the developing countries' markets, and 2) those that give special access to the markets of the developed countries. Non-reciprocity of tariff negotiations belong under the first category. The second group encompasses the various schemes implemented by the advanced countries to provide beneficiary developing nations with duty-free or preferential access to the former's

85 OAS, "Special and Differential Treatment in International Trade," 47.

86 OAS Trade Unit, "Small and Relatively Less Developed Economies and Western Hemisphere Integration," 24.

markets. Examples of some of these arrangements are the GSP, the Caribbean Basin Initiative (CBI), CARIBCAN, and the Lome Conventions. The basic idea of these schemes is that products from developing countries that are imported into an industrialized nation will be subject to a tariff or quota rate by the importing country that is less than the rate applied to products from countries other than beneficiary developing nations.

In recent years, there is a growing sentiment that preferential arrangements may not have been totally beneficial to the countries they were intended to assist. It has been suggested that the programs perpetuate undesirable policies and more importantly, foster a high degree of non-competitiveness in some exports of developing countries depriving them of the ability to compete on the open market with similar exports from other developing and industrialized countries. Proponents who do not want to see the dismantling of these arrangements continue to assert that they are the only way that developing countries will obtain relatively free access to the world's major markets, particularly since these poor nations have little bargaining power in reciprocal negotiations.

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88 OAS Trade Unit, "Small and Relatively Less Developed Economies and Western Hemisphere Integration," 24.

89 OAS, "Special and Differential Treatment in International Trade," 2.

90 Pincus, Trade, Aid and Development, 198.

industrialized countries receive from the schemes. Since preferences are geared to boost foreign exchange earnings by developing countries, they will subsequently lead to increased imports from industrialized countries.92

The proponents also suggest that preferential arrangements serve to nurture export consciousness in the developing nations which subsequently enable them to better utilize existing resources and seek to attract foreign investment.93 Preferences from the North to the South are also considered to be an alternative means of resource transfer or aid.94 As stated by Pomfret:

... the income transfer involved in making price concessions to the South is small but is more acceptable politically to donor and recipient than the equivalent foreign aid subsidy... 95

Although in recent years proponents have been mounting a serious case for the continuance of these arrangements suggesting that any device to encourage export promotion is desirable96, most of them are resigned to the possibility that the arrangements have a slim chance of retaining the form in which they presently are carried out, particularly in this era of trade liberalization. Advocates of trade liberalization point to the undesirable features of preferential arrangements as the rationale for their discontinuance, suggesting among other things that the arrangements, instead of

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92 Weintraub, NAFTA at Three, 203.
93 Pincus, Trade, Aid and Development, 217.
94 Weintraub, NAFTA at Three, 101.
95 Pincus, Trade, Aid and Development, 198.
96 Ibid.
improving North-South relations, would only serve to exacerbate them. They claim that these special and differential treatment foster inefficient resource allocation in developing countries and also discriminate against some LDCs. This is an ongoing debate in trade negotiations between industrialized and developing countries.

In "What Can the WTO Do For Developing Countries," the authors offer several reasons why these arrangements should be discontinued. They argue that preferences transfer to developing countries the "production distortions inherent in developed countries' tariff structures," that is they permit and even encourage producers to maintain costs above those of the nonpreferred competitors. In addition, they attack the prevailing GSP schemes as being so wrapped up with exclusions, quantitative limits and rules of origin, that they have only limited coverage, while the excluded imports which include products such as clothing, footwear and leather, are typically the most important items from the point of view of development purposes. The programs viewed in this way, thus have the effect of diverting resources away from these products.

Another argument against preferential arrangements that is proffered is based on the fact that many preferential schemes are unilateral and can therefore be withdrawn at any time by the granting industrial country. This uncertainty, the authors claim, encourages a level of "short-termism" on the part of entrepreneurs, whose decisions are

97 Ibid.

98 Ibid.


100 Ibid.
likely to be based on the quick fix rather than on the long term, and therefore hinder both business and governments from focusing on more long-term, productive activities.101

Preferential arrangements are also criticized on grounds of creating obstacles for furthering trade liberalization.102 Finger and Winters argue that beneficiary countries in trying to maintain preferences, are discouraged from investing in rounds of negotiated trade liberalization and do not undertake effective efforts to be integrated into the world economy. They criticize the programs for exacerbating the difficulties of pursuing satisfactory policies in the developing countries and for these reasons, they insist that preferential arrangements should be "phased out as soon as possible."103 Other reasons given for ending this system of preferences include the belief that it creates a type of economic dependence on northern concessions, that it is also an inferior way to grant aid, and that it leads to an inequitable distribution of aid costs.104

**Conclusion**

Developing countries are increasingly coming to grips with the reality that the protected markets they once had access to in industrial countries, may no longer be available to them in this new century, nor would the foreign exchange that accrued to them from the preferential arrangement which provided a safety net, be assured. Preferential arrangements could provide a breathing room that would enable them to

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101 Ibid.


103 Finger and Winters, "What Can the WTO Do," 390.

develop alternative strategies geared to developing their competitiveness in the open market.

On the other hand, if developing countries choose to be overly complacent and continue to rely on these arrangements as the backbone of their development strategies without exploring new ways of conducting trade, then their future would be unpromising. The evidence that has been provided so far is that the free trade model is the one that is durable and that has proven to be credible for most developed countries. Developing countries now more so than in previous decades, seem to have very few other options to exercise than to embrace the free trade model in their quest for attaining economic development.
CHAPTER 3

THE CARIBBEAN COMMUNITY (CARICOM): TRADE PATTERNS AND MAJOR CHALLENGES FOR THE TWENTY-FIRST CENTURY

Background

The Caribbean Community (CARICOM) can be considered as a sub-region of the Caribbean Basin and includes the islands of Antigua and Barbuda, the Bahamas, Barbados, Dominica, Grenada, Jamaica, Montserrat, St.Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Trinidad and Tobago, Haiti, the South American mainland territories of Guyana and Suriname, and the Central American nation of Belize. These economies vary significantly in terms of economic size, levels of development, patterns of trade, and the degree of trade dependence on their major trading partners, the United States, The European Union and Canada. At the same time, their economies are to a large extent highly undiversified, making them extremely vulnerable to external market conditions. Because of their geographic size and location, they are also easily affected by environmental disasters such as hurricanes and floods.

CARICOM countries, like the majority of developing nations, found themselves in a state of economic decline in the 1980s, after periods of marked sustained growth in the 1960s through the 1970s. During the 1960s the countries enjoyed increased standards of living, and favorable market conditions for their main exports. During this time, the world economy and the industrialized nations also experienced strong
economic growth. With the onset of the 1970s, a combination of internal economic management problems and a series of unfavorable external events in the world economy affected the countries' export and import prices. These events culminated in a significant slowdown in economic growth, particularly in countries such as Jamaica, after the mid 1970s.¹ In addition to the reduced demand for, and the decline in the prices of export commodities, the oil shocks of the late 70s and early 80s, and the inappropriate response by governments in the region to these external developments, further accelerated and exacerbated the economic slowdown.² By the early 1980s, Caribbean governments placed a high emphasis on agricultural diversification as one of the region's best hope for achieving economic growth.³

The 1980s saw little improvement for these countries and in most cases, the situation worsened. Gross Domestic Product (GDP) per capita at the end of the 1980s was lower than it was in the late 1970s in some of these countries, and real per capita income lower in 1988 than in 1980.⁴ The governments responded to the severe balance...
of payments crises with stabilization measures which substantially reduced import capacity, and which in turn led to a reduction in growth and export production.  

While fifteen Caribbean countries exported more commodities in 1986 than they did in 1980, earnings increased in only five of them because of the drop in world market prices for their exports. Prices for most Caribbean commodity exports continued to fall during the years 1987 - 1990, contributing to a widening gap between the countries' expenditures on imports and their earnings from exports.

As inflation rates soared and real interest rates increased, the shortage of foreign exchange worsened, and the countries were forced to depreciate their currencies. One of the factors that contributed to the worsening situation was the servicing of the external debt at the same time that private investment and aid flows were being reduced. The debt to service ratio, which is the share of foreign exchange earnings from exports of goods and services required for debt payment, continued to increase during this period and stifled economic growth. The debt of the Caribbean region as a whole more than doubled from approximately $6.1 billion in 1980 to $14.3 billion in 1988. 

By the early 1990s, the Caribbean economies were burdened with a combination of sluggish growth, weak balances of payments, relatively high unemployment, and underemployment. The governments embarked on a number of macroeconomic

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5 Bernal, "Influencing U.S. Policy," 211.
6 McAfee, Storm Signals, 21.
7 Ibid.
8 Bernal, "Influencing U.S. Policy," 212.
measures such as trade liberalization, investment promotion, debt reduction, privatization and fiscal self reliance. In addition, they increased their efforts to encourage nontraditional exports such as textiles and winter vegetables, and to expand the regional tourist industry. These structural adjustment reforms and macroeconomic policies carried out by the governments were not altogether willingly implemented, but in most cases were necessitated by the global economic environment, including the stipulation by international and financial institutions as a condition of their assistance.

**Characteristics of CARICOM Economies**

One characteristic feature of the CARICOM economies has been their traditional dependence on a limited number of agricultural and industrial commodities, and their heavy reliance on one or two metropolitan countries for their economic and financial survival. Britain, which had been the main trading partner for most of the islands for much of the twentieth century, began to lose ground to the United States in the aftermath of World War II, particularly with the four larger economies of Trinidad and Tobago, Jamaica, Barbados and Guyana. This shift in trading relations was accelerated during the 1960s as large amounts of U.S. investments were channeled into certain sectors in the region.

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10 Ibid.

11 Bryan, "Coping with the New Dynamics," 246.

CARICOM countries have traditionally exported agricultural and mineral products to their industrialized trading partners, with these exports making up a significant portion of foreign exchange earnings. The agricultural sector is still the most economically important to the majority of the smaller islands, which depend on exports such as bananas, cocoa, nutmeg, mace and winter vegetables for a significant part of their foreign exchange earnings. In the Organization of Eastern Caribbean States (OECS), a subgroup of most of the smaller economies within CARICOM, bananas which enjoy preferential arrangements in the European market, continue to be one of the major foreign exchange earnings, particularly for Dominica and St. Lucia, and to a lesser extent, Grenada and St. Vincent. Sugar, which had once been a major export from the Caribbean, has continued to decline in overall output, employment, and profitability and as a major source of foreign exchange earnings for the region. Although traditional agricultural exports still account for a significant part of total U.S. imports from the Caribbean, light manufactures are beginning to have an increasing share of U.S. imports from the area and are the fastest growing sector for new investments.\(^{13}\)

U.S. multinationals began investing heavily in the mineral industries in CARICOM during the 1960s expanding the mineral output in the region and contributing

to the dramatic growth of Caribbean trade with the U.S. This helped to make the U.S. the most important trading partner for the region, particularly for the larger economies of Trinidad and Tobago, and Jamaica, which had substantial mineral industries. In Trinidad and Tobago, petroleum and petroleum products account for about 60 to 70% of exports.14

Another source of income, in some cases, the leading source, for CARICOM countries is tourism. Since the 1980s, this sector has grown to a level of great significance for both the smaller and larger economies accounting for 26% of the region's GDP by 1993.15 By 1990, the industry generated and provided employment for over 400,000 people. In 1993, earnings from tourism amounted to $950 million for Jamaica, which represented a 10% increase over 1992. In Antigua and Barbuda, the sector accounted for over 70% of total receipts, and in the Bahamas and Barbados each for more than 50% of receipts in the early 1990s.16 Many Caribbean countries consider the development of the tourist industry as a viable alternative to some agricultural exports as a means of generating foreign exchange.

The import substitution policy implemented by the Caribbean economies in the 1970s gave rise to a manufacturing sector. In their efforts to diversify also, many CARICOM states began moving away from agriculturally based monocultures and venturing into the export market for manufactured goods. The manufacturing sector in

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15 Gayle, "The Evolving Caribbean," 139.

16 Ibid., 144.
the CARICOM nations also received a boost from the countries' attempts to increase the production of non-traditional exports, and to take advantage of preferential trade regimes such as the Caribbean Basin Initiative.17

**The Manufacturing Sector**

The manufacturing sector in CARICOM is composed of two segments - one producing for the local and regional market, and the other usually operating in "enclave-type free zones intended for assembling component parts of goods," which are reexported mainly to the U.S.18 This sector was developed as a result of the encouragement and incentives provided to foreign investors to engage in production for both the local and export markets.19 Many CARICOM countries such as Barbados, Jamaica and Trinidad, in an effort to attract foreign investment, established free trade zones (FTZs), also called export processing zones (EPZs), that are not subject to the same taxes, tariffs and regulations that apply to factories outside the zones.20 They are provided with tax holidays of up to 20 years on profits, exemption from import licensing and duties on goods imported for use within the zone and from taxes on stock dividends. They are also allowed to repatriate profits of up to the amount of the original investment.21

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19 Ibid.

20 McAfee, *Storm Signals*, 84.

21 Gayle, "The Evolving Caribbean," 139.
In addition, they are provided with factory shells and utilities at rates below their actual costs. 22

These EPZs have emerged on account of a dual need by both the developing countries and manufacturers in the industrialized nations - by the former to increase their earnings from exports and by the latter to reduce their costs of production. 23 Exports from these zones receive preferential treatment not only in the local country where production takes place, but also in the destination country, which is, in the majority of the cases, the United States. 24

With its crucial need for foreign exchange, its close proximity to the U.S., and its cheaper labor costs than in the U.S., the Caribbean is considered as an ideal location for the establishment of these EPZs. 25 These factory enclaves which are highly labor intensive and export oriented, are promoted in the Caribbean as a strategy to expand employment. They are usually set up in urban areas and tend to hire primarily unskilled and semi-skilled production workers. They have been a growing source of employment particularly among young women between the ages of 16 - 25. 26

22 McAfee, Storm Signals, 84.

23 Tirado de Alonso, Trade Issues in the Caribbean, 9.


25 Tirado de Alonzo, Trade Issues in the Caribbean, 9.

26 Ibid.
operations that provide professional education and worker training programs to their employees.27

Table 3.1 gives an indication of the significance of EPZs as a source of employment in some countries in selected years:

TABLE 3.1

EPZs as a Source of Employment in Selected CARICOM Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Labor Force in 1988</th>
<th>Employment in EPZs and other offshore manufacturing operations</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>1975</td>
</tr>
<tr>
<td>St. Vincent</td>
<td>45,000</td>
<td>n/a</td>
</tr>
<tr>
<td>Barbados</td>
<td>113,200</td>
<td>3,000</td>
</tr>
<tr>
<td>Montserrat</td>
<td>5,100</td>
<td>n/a</td>
</tr>
<tr>
<td>Jamaica</td>
<td>1,100,000</td>
<td>6,100</td>
</tr>
<tr>
<td>Belize</td>
<td>49,000</td>
<td>n/a</td>
</tr>
<tr>
<td>St. Lucia</td>
<td>54,000</td>
<td>3,500</td>
</tr>
<tr>
<td>Dominica</td>
<td>35,000</td>
<td>n/a</td>
</tr>
</tbody>
</table>


In Barbados, assembly operations accounted for about 3,000 jobs and provided over 20% of employment in the manufacturing sector in 1975. However, by 1986, the number had more than doubled to 6,865 jobs which made up over 60% of employment in manufacturing. By 1984, women made up 94% of the workforce in this sector.28 Export assembly activities in Dominica reportedly employed 850 workers out of a total labor

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force of about 35,000 to 40,000 in 1989; in St. Lucia, the figure was 2,780 workers out of a total labor force of about 54,000; and in Belize, 1,060 workers out of a total workforce of 58,000, the great majority of whom were women.

In addition to direct employment, these assembly operations have also been credited with generating indirect employment from the purchase of local inputs and through the multiplier effect from local expenditures by assembly workers. A study done by Dominican economists estimated that each direct job in assembly operations generate 1.5 indirect jobs in the economy at large. As a result, EPZs in the Dominican Republic in 1988, for example, generated 85,000 direct jobs and 127,500 indirect jobs for a total of 212,500 jobs.

For a growing number of CARICOM countries, the manufacturing sector which includes the EPZs is becoming the main source of foreign exchange earnings for their economies. During the 1983 - 1989 period, manufactured goods particularly assembled products, accounted for an increasing share of these Caribbean nations' exports to the U.S., as their other major export sectors - agriculture, forestry, mining and minerals -

29 Ibid.
30 Ibid.
31 Ibid.
32 Tirado de Alonzo, Trade Issues in the Caribbean, 9
33 Ibid.
have either grown less rapidly or contracted, as is shown in the following table:

**TABLE 3.2**


<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Barbados</td>
<td>Sugar</td>
<td>18.7</td>
<td>26.3</td>
<td>25.0</td>
<td>26.1</td>
<td>28.3</td>
<td>28.0</td>
<td>23.4</td>
</tr>
<tr>
<td></td>
<td>Assembled Products</td>
<td>43.3</td>
<td>44.0</td>
<td>24.4</td>
<td>10.2</td>
<td>8.7</td>
<td>7.9</td>
<td>6.2</td>
</tr>
<tr>
<td>Belize</td>
<td>Sugar</td>
<td>34.2</td>
<td>32.5</td>
<td>22.9</td>
<td>31.5</td>
<td>27.0</td>
<td>35.0</td>
<td>n/a</td>
</tr>
<tr>
<td></td>
<td>Citrus</td>
<td>6.8</td>
<td>9.8</td>
<td>12.1</td>
<td>11.1</td>
<td>15.5</td>
<td>17.7</td>
<td>n/a</td>
</tr>
<tr>
<td></td>
<td>Assembled Products</td>
<td>1.7</td>
<td>4.1</td>
<td>4.0</td>
<td>3.8</td>
<td>4.0</td>
<td>4.8</td>
<td>3.6</td>
</tr>
<tr>
<td>Grenada</td>
<td>Nutmeg</td>
<td>2.9</td>
<td>2.1</td>
<td>4.2</td>
<td>9.7</td>
<td>14.6</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td></td>
<td>Cocoa</td>
<td>6.0</td>
<td>4.2</td>
<td>5.0</td>
<td>4.2</td>
<td>4.0</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td></td>
<td>Bananas</td>
<td>3.0</td>
<td>2.9</td>
<td>3.2</td>
<td>3.7</td>
<td>4.1</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
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<td>0.0</td>
<td>0.1</td>
<td>0.0</td>
<td>0.3</td>
<td>1.3</td>
<td>1.5</td>
</tr>
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<td>Alumina</td>
<td>337.1</td>
<td>333.0</td>
<td>208.1</td>
<td>210.8</td>
<td>199.8</td>
<td>243.1</td>
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<td></td>
<td>Bauxite</td>
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<td>114.3</td>
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<tr>
<td></td>
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<td>45.4</td>
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<td>61.6</td>
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<td>3.1</td>
<td>3.7</td>
<td>2.3</td>
<td>1.4</td>
</tr>
<tr>
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<td>23.8</td>
<td>30.2</td>
<td>55.5</td>
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<td>n/a</td>
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<td>.1</td>
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<td>n/a</td>
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<td>1.2</td>
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<td>3.1</td>
<td>4.0</td>
<td>3.6</td>
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<td>Bananas</td>
<td>11.0</td>
<td>11.9</td>
<td>16.9</td>
<td>19.4</td>
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<td>Assembled Products</td>
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<td>.9</td>
<td>1.8</td>
<td>.9</td>
<td>1.4</td>
<td>.9</td>
<td>1.1</td>
</tr>
</tbody>
</table>


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In some Caribbean countries, assembled product exports have displaced certain traditional commodity exports as the major sources of foreign exchange. In Haiti, St. Lucia, Antigua and Barbuda, and Montserrat, assembled products accounted for 50% or more of exports to the U.S. in 1987.\textsuperscript{35} Manufacturing currently makes up a significant part of the economy in Antigua and Barbuda, Barbados, Jamaica, and Trinidad and Tobago. In fact, the main exporters of manufactured goods from CARICOM to both extra regional markets and those within the CARICOM are from Barbados, Jamaica, and Trinidad and Tobago. In 1975, manufacture's contribution to GDP was 16% for Jamaica, over 7% for Trinidad and Tobago, 5% for Guyana, and about 11% for Barbados.\textsuperscript{36} By the mid 1980s the economies of these countries accounted for approximately 94% of the manufacturing GDP of the region.\textsuperscript{37}

The principal manufacturing exports from the assembly plant operations in CARICOM have been assembled electronic components, textiles and apparels. Since 1983, about 90% of all imports under the U.S. Code 807.00 from the Caribbean region, have consisted of assembly apparel and electronic items.\textsuperscript{38} For countries such as Jamaica, Belize, Grenada and St. Lucia, textiles and apparel are the principal component

\textsuperscript{35} Tirado de Alonzo, \textit{Trade Issues in the Caribbean}, 9.

\textsuperscript{36} Palmer, "Caribbean Dependence," 1.


of their manufactured exports. Apparel accounts for 71% of Miami's imports from the Caribbean, with 90% of this apparel coming from the Dominican Republic and Jamaica.

As certain non-assembly export oriented manufacturing activities such as food and primary metals have declined in relative importance, exports of assembled apparel have grown significantly. For the Caribbean Basin as a whole, which includes the Central American nations, together with CARICOM nations, apparel and textile exports rapidly expanded accounting for $2 billion of the region's total $6.2 billion in exports to the U.S. in 1991. In 1994, textiles and apparel exports increased to 1.58 million square meters equivalent, which represented a 16% rise in volume over that of 1993.

According to the Textile and Apparel Institute, an industry lobby located in Jamaica, earnings from exports in textile and apparel from the Caribbean Basin region during that period expanded 13% to $4.53 billion. In 1994, the U.S. Department of Commerce reported that U.S. imports of textiles from the Caribbean Basin in that year increased by 12.7% compared with the previous year to $4.6 billion.

The increase in the U.S. demand for clothing has had a significant positive impact

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40 Gayle, "The Evolving Caribbean," 137.


42 Gayle, "The Evolving Caribbean," 146.


44 Ibid.
on the Caribbean in terms of export earnings. Between 1980 and 1986, U.S. imports from the world and the Caribbean grew at 17% and 18% per annum respectively.\textsuperscript{45} By 1986, clothing accounted for over one third of the Caribbean's earnings from manufactured exports.\textsuperscript{46} Most of the clothing imports from the Caribbean enter the U.S. under its 807 program, which exempts U.S. inputs in the finished product from tariffs.\textsuperscript{47}

Not all Caribbean countries however, have benefited from the shift in production from traditional agricultural products to manufacturing exports. Although the growth of non-traditional exports in the manufacturing sector has been a great boost to earnings in some countries, in others, losses in foreign exchange earnings from declining commodity prices and reductions in U.S. sugar quotas have not been offset by these non-traditional exports. The manufacturing sector, in particular the assembly type operations, have been criticized for not creating more forward linkages, which are jobs associated with domestic distribution of assembled products.\textsuperscript{48} The lack of linkages to other economic sectors means that the zones have little or no effect in creating additional jobs outside the export factories.\textsuperscript{49} The work force is usually made up of low skilled workers with little

\begin{itemize}
  \item \textsuperscript{46} Ibid.
  \item \textsuperscript{47} Ibid.
  \item \textsuperscript{49} McAfee, Storm Signals, 87.
\end{itemize}
training. Most of the jobs created in the industry are also temporary, and the skills
learned by workers are typically not transferable to other productive activities.⁵⁰

Other weaknesses identified by critics with the assembly type operations include
their non-permanent feature. These plants tend to be leased factory shells where second
hand machinery is utilized with most of the parts and components imported.⁵¹ These
features lend themselves to industries that are highly transient, with no deep investment
roots established in the host country, and are therefore, free to move wherever lower
production costs can be negotiated.⁵²

These industries develop no deep commitment to the local economy. Countries
playing host to these type of operations are therefore exposed to the risks of the
companies withdrawing their investment at very short notice, and throwing the local
economy into disarray. Despite these criticisms, a USAID memorandum on Caribbean
development noted that "the countries that have benefited the most from the CBI are
those that have established Free Trade Zones."⁵³

One of the handful of Caribbean Basin countries that has made great progress in
developing that sector is Honduras, which ranks 5th in worldwide assembly plant (also
called maquila or maquiladora) exports to the U.S.⁵⁴ In Honduras, the private sector has

⁵⁰ Ibid.
⁵¹ Ibid.
⁵² Ibid.
⁵³ McAfee, Storm Signals, 87.
⁵⁴ Mercedes Cortazar, "Honduras Survives Mexican Competition," Apparel Industry International,
November/December 1997, 1.
been very aggressive in pushing for the construction of industrial parks equipped with advanced technology and modern infrastructure that are attractive to foreign investors.\textsuperscript{55} In addition, the Honduran authorities make deliberate efforts to keep bureaucracy in the free zones down to a minimum.

Internal transportation in Honduras has been efficient, and the country maintains a suitable Atlantic port, one of the best in the Caribbean/Central American region, Puerto Cortes, which the rest of the countries in Central America use. Other Central American countries find it easier to transport merchandise to Honduras for export. To the foreign investor, it makes economic and business sense to establish factories in Honduras, or in any other locale where the support from the local authorities and private sector exists, and where the local government facilitates a hassle free environment for doing business.

\textbf{Caribbean Trade Relations: Need to Attract Foreign Investment}

The CARICOM governments share a number of common goals regarding the development of their economies. It is generally recognized that among the most pressing concerns are the needs to achieve sustained economic growth and development and to create jobs for the region's growing young population. The economies are also constantly seeking alternative ways to increase exports and foreign exchange while reducing net capital outflows. Another major goal is to reduce their economic vulnerability through economic diversification.\textsuperscript{56}

\textsuperscript{55} Ibid.

\textsuperscript{56} Montalvan, \textit{Promoting Investment and Exports}, 94.
One of the major efforts that has been put forth by CARICOM governments to achieve these goals is the strategy to attract foreign investment to the region. The earliest interest of foreign investors in the islands centered around the plantation and mining sectors. This was followed by a major interest in tourism, then later the service and manufacturing sectors.\textsuperscript{57}

A recent trend in foreign investment in the Caribbean Basin is the increasing growth and interest of Asian investors, particularly those from the Asian newly industrializing countries (NICS) of South Korea, Taiwan and Hong Kong. These investors are usually either with U.S. companies having Asian subsidiaries or subcontractors used to supply the U.S. market and elsewhere; or Asian owned companies producing for export to the U.S.\textsuperscript{58} This growing interest for investment in the Caribbean Basin is spurred by the fact that both the U.S. and Asian countries are being faced with increasing costs of production and political pressures that threaten their competitiveness in, and (in the case of the Asian exporters) access to the U.S. market.\textsuperscript{59}

In the Asian NICS, a combination of rising wages, loss of GSP status, and stronger currencies have all increased the costs of production, particularly in the type of labor-intensive assembly operations that are being established in the Caribbean Basin.\textsuperscript{60} Moreover, there has been a growing protectionist attitude in the U.S. toward the Asian


\textsuperscript{58} Montalvan, \textit{Promoting Investment and Exports}, 90 - 91.

\textsuperscript{59} Ibid., 91.

\textsuperscript{60} Ibid.
NICS, and locating their operations in the Caribbean may be a tactic to circumvent existing and potential trade barriers.\textsuperscript{61}

Meanwhile, this trend is a good fit for the CARICOM growth strategy of attracting foreign investment. Foreign investment is considered to be not only a "non-debt-creating flow" for the region, but also a mechanism for gaining access to foreign markets and new technology.\textsuperscript{62} CARICOM governments view foreign investment as a way to create jobs and increase export earnings, and to help fill the "capital gap" with which they are all faced.\textsuperscript{63}

The CARICOM nations possess a number of attractive features that appeal to U.S. investors as a good place to do business. In addition to its close proximity to the U.S. market, the countries have reasonably priced labor and an educated and trainable workforce who in the majority share with the U.S. a common language, English.\textsuperscript{64} However, this commonality of features can pose a challenge for the countries in that the CARICOM states produce more or less the same commodities and seek to attract the same foreign investors.\textsuperscript{65} This feature may serve to foster stiff competition among them, to the disadvantage of the smaller, less developed members. This was one of the problems that the CARICOM leadership tried to address in ensuring that all participating

\textsuperscript{61} Ibid.


\textsuperscript{63} Montalvan, \textit{Promoting Investment and Exports}, 92.

\textsuperscript{64} Ibid., 105.

members share equitably in the benefits of being in an integration bloc. As in groupings that consist of countries at different stages of development and infrastructural modernization, there is a tendency in CARICOM for foreign investment to be attracted to the more developed members of the group.\textsuperscript{66} Although they incorporated provisions to prevent this from occurring, CARICOM states still found themselves competing with one another by offering increasingly generous incentives to foreign investors - incentives which proved to be self defeating in that they encouraged the use of capital intensive techniques which lessened the number of jobs that could have been created.\textsuperscript{67}

In spite of the fact that CARICOM states offer many incentives to attract foreign investment, there still remains a plethora of obstacles to increasing and expanding production in the region. A series of surveys conducted by the U.S. Department of Commerce in the late 1980s of U.S. companies, revealed that the companies shared several concerns about investing in the region. Among these concerns were their ability to repatriate profits, the various levels of governmental bureaucracy they may have encountered, and the availability of sound infrastructure including such things as the reliability of utilities (electric power), and the communications system.\textsuperscript{68} Companies are frequently confronted with delays in processing investor applications, administrative bottlenecks, interventions from government agencies, and other requirements and

\textsuperscript{66} Ramsaran, \textit{U.S. Investment in Latin America and the Caribbean}, 137.

\textsuperscript{67} Ibid., 139.

\textsuperscript{68} Montalvan, \textit{Promoting Investment and Exports}, 108.
problems related to taxation, exchange rates, currency convertibility, legal processes and banking regulations.  

Foreign direct investment in the CARICOM, and the Caribbean Basin as a whole, is often criticized for not being a catalyst to real development because of its bias towards the assembly type manufacturing operations. Business sectors that tend to benefit the host country with more permanent capital resources and the training of skilled workers such as information and technology areas, do not receive the type of incentives that the assembly type operations receive. This had led some to conclude that the type of foreign direct investment (FDI) that CARICOM receives could not lead to high productivity growth given the distorted incentive system.

CARICOM Trade Relations with Extra-Regional Partners

The main trading partners for the CARICOM states are the United States, the European Union, and Canada. Most of the region's exports are marketed and exported to these industrialized countries under preferential arrangements namely the Caribbean Basin Initiative, the Lome Convention which up until early 2000 was replaced by the Partnership Agreement, and CARIBCAN respectively. Although these large markets provide non-reciprocal access for the exports from CARICOM, the economies' limited size and resources, the pervasiveness of non-tariff barriers particularly in non-traditional

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70 Surath Rajapatirana, "The East Asian Experience and its Relevance to the Caribbean Within the NAFTA Environment," Paper prepared for the Investment Conference organized by Development Finance Limited (Port of Spain, Trinidad and Tobago: March 1994), 16.
export areas in these large countries, make CARICOM incapable of exploiting these arrangements to the fullest.\footnote{DeLisle Worrell, "Caricom and the North American Free Trade Area," Paper prepared for the Overseas Development Council (n.p., February 1992), 9.}

While the LDCs in CARICOM depend more on the EU for the bulk of the trade, their more developed counterparts rely on the U.S. as their most important trading partner, supplying the largest share of the value of the region's imports, and providing a market for the major part of U.S. exports.\footnote{Palmer, \textit{Caribbean Dependence on the U.S. Economy}, 17.} CARICOM trade with the EU has increasingly been affected by the growing number of Southern European states being incorporated into the bloc and also by the general global trend towards reduction of trade barriers.\footnote{G.S.R. Associates, "Report on the North American Free Trade Agreement" (Port-of-Spain, Trinidad: n.d), 52.} Another important feature that has buttressed the growing US/Caribbean trade relations is the changing production structure of Caribbean economies. Products such as tourism, oil, bauxite, offshore services, and assembly type manufactured products are sold mainly to North America displacing agricultural staples that had been previously exported to the United Kingdom.\footnote{Worrel, "Caricom and the North American Free Trade Area," 2.} In addition, the economic and political trends of the 1980s nudged the region to pursue a policy of export-led growth within the markets of the Americas and towards closer integration into the U.S. system.\footnote{Anthony Payne, "The New Politics of 'Caribbean America'," \textit{Third World Quarterly} 19, no. 2 (1998): 209.}
U.S.-Caribbean trade relations are also influenced by the large volume of U.S. private investment in the region, making the economies highly dependent and vulnerable on the U.S. which is now the region's principal source of foreign investment. This dependence is reflected by the dominance of raw materials and semiprocessed goods in the flow of trade from CARCOM states which are incapable of exerting any significant power in influencing the market prices. U.S. multinational corporations' investments in CARICOM countries are in areas such as oil production and distribution, the hotel industry, information services, shipping, agricultural exports, semiprocessed manufactures, and bauxite production.

By the early 90s, the U.S. provided about 60% of the tourists, purchased about 49% of merchandise exports, and supplied about 58% of CARICOM's imports. CARICOM's exports to the U.S. amounted to $4.8 billion in 1990, an increase of about 24% from 1987. At the same time, exports from the U.S. to the region grew even more rapidly to about $5.6 billion in 1990, a 33% increase from 1987. This burgeoning trade relationship has also contributed to the Caribbean's status as being one of the few areas where the U.S. enjoys a favorable trade balance reflected in its trade surplus with the

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77 Ibid., 4.


79 Bernal, "Influencing U.S. Policy Towards the Caribbean: A Post Cold War Strategy," 211.

80 Ibid.
region. Business America reported that in 1987, U.S. exports to the region increased almost 17% over 1983 figures, but during that same period, imports from the region declined.

In recent years, U.S. investments in the manufacturing sector in the Caribbean have grown to overtake investments in other areas, with the U.S. also progressively overtaking Europe as a market for merchandise trade. Over half of these exports are to the U.S. market. The growth in U.S. based manufactures engaging in offshore assembly operations in the Caribbean region stems from the implementation of several tariff provisions by the U.S. government which make it economically feasible for these investors. These special provisions allow for low duties on U.S. goods. Import duties are assessed only on the foreign value-added on products that are further processed or assembled abroad and which are made from materials or components produced in the U.S. These provisions have been a major stimulus for the growth of CARICOM’s export manufacturing sector. Formerly known as TS 806.30 and TS 807.00 in the Tariff Schedules of the U.S. (TSUS), and in effect since 1963, these special provisions are now referred to as Items 9802.00.60 and 9802.00.80 in the New Harmonized System nomenclature introduced in January 1989. In addition, CARICOM countries also

85 Ibid.
enjoy access to the U.S. market through the General System of Preferences (GSP) provisions. Several CARICOM countries have also signed double taxation treaties with the U.S., with the goal of enticing more investment to the region.86

One industry that has benefited more than any other from these provisions in the region is the textile and apparel sector. Under the then 806 and 807 provisions, the U.S. granted special access to its market for textile/apparel imports from Caribbean Basin countries that use fabrics which are made and cut in the U.S. By the mid to late 1990s, textile and apparel products were the leading U.S. imports from the Caribbean region, 87 with other major exports being petroleum products, agricultural products such as bananas, coffee, sugar cane, cocoa, and aluminum ore products.88 For certain CARICOM nations such as Antigua, Montserrat, St. Lucia, Haiti and Jamaica, products assembled from U.S. sourced components for export to the U.S. market represent a major portion of all products exported to the U.S.89

86 Worrell, "Caricom and the North American Free Trade Area," 5.


TABLE 3.3
Clothing Imports from CARICOM by U.S. for years 1992 and 1993: The Major Significant Exporters (US $000)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Belize</td>
<td>18,083</td>
<td>19,907</td>
<td>14,142</td>
<td>15,169</td>
</tr>
<tr>
<td>Barbados</td>
<td>6,598</td>
<td>6,527</td>
<td>6,447</td>
<td>6,317</td>
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<tr>
<td>Guyana</td>
<td>4,489</td>
<td>5,632</td>
<td>3,656</td>
<td>5,030</td>
</tr>
<tr>
<td>Jamaica</td>
<td>293,334</td>
<td>389,002</td>
<td>218,222</td>
<td>314,098</td>
</tr>
<tr>
<td>St. Lucia</td>
<td>22,309</td>
<td>23,569</td>
<td>9,948</td>
<td>6,437</td>
</tr>
<tr>
<td>St. Kitts/Nevis</td>
<td>4,731</td>
<td>4,262</td>
<td>4,727</td>
<td>4,201</td>
</tr>
</tbody>
</table>

Source: Special Category Report Prepared for Embassy of Trinidad and Tobago by Trade Monitoring Service (Washington, D.C., June 2, 1994).

The manufacturing sector, including the textile and apparel industry, is not only important to these Caribbean exporters, but also to that industry within the U.S. Stephen Lamar, Government Relations Director for the American Apparel Manufacturers Association, recently reported that the U.S. apparel and related industries in many cases rely on partnerships with manufacturers in the Caribbean. The Association estimates that "15 apparel jobs in the U.S. are created by every 100 jobs in 807 (offshore) production in other industries." Furthermore, by 1996, it was reported that Caribbean trade in products from the manufacturing sector supported more than 300,000 jobs in the U.S. An official in the Jamaica's government investment promotion agency also supported


this observation by suggesting that "for every US $100 exported by Caribbean export
assembly industries, only US $20 remain in the Caribbean, and US $80 go to the U.S.
industry."

Although the textile/apparel sector and the overall manufacturing sector grew
tremendously in the major CARICOM exporting countries of these products during the
1980s, certain global developments in the 1990s have threatened to curtail that growth
and cause major problems for the economies that have developed a major dependence on
the manufacturing industry. Preferential market access that were being enjoyed in the
U.S. and European Union markets are increasingly being eroded with the implementation
of NAFTA, the extension of U.S. trade preferences to the Andean nations, the expansion
of the European Union, and the replacement of the Lome Conventions. Compounding
these problems for CARICOM states is the aid fatigue syndrome which many
industrialized countries face, particularly with the attention given to the former Eastern
carc nations' conversion to western style capitalism, and their intense efforts to
restructure their economies and societies. Other areas that will detract resources and
attention from the Caribbean region will be the ongoing issue of Middle East peace and
security, and the unfolding relations with trading partners in Europe and the Far East.

Another major occurrence that is already having quite an impact on developing
countries including the CARICOM states is the completion and implementation of
decisions reached at the Uruguay Round of trade negotiations including the establishment

92 McAfee, Storm Signals, 87.

93 Georges A. Fauriol, "U.S.-Caribbean Relations Into the 21st Century: Policy Papers on the
Americas" (Washington, D.C: Center for Strategic and International Studies, 1995), 12.
of the World Trade Organization (WTO). These developments will provide major challenges to the CARICOM nations and the developing world as a whole, as these countries are faced with the challenge of making the transition from an environment in which they enjoyed special trade arrangements to one which is wholly governed by the principles of free trade and reciprocity.  

**Major Challenges Facing CARICOM:**

**Outcome of the Uruguay Round and Establishment of the WTO**

Up until the Uruguay Round of trade negotiations, many developing countries insisted on or aggressively sought special and differential treatment as an important part of their multilateral negotiations, as a result of certain provisions in GATT which controlled international trade since its formation as part of the Bretton Woods System. Article XVIII of the 1947 GATT allowed developing countries to impose quantitative restrictions either for development purposes or for balance of payments reasons. Part IV of the GATT on Trade and Development established the principle of non-reciprocity in trade negotiations between developed and developing countries, and provided for the former to adopt special measures to promote the expansion of imports from the latter.

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Additionally, the Enabling Clause emerged from the Tokyo Round and included a number of provisions which permitted GATT contracting parties to grant differential and more favorable treatment to developing countries, "notwithstanding the non-discrimination requirement of Article 1 of the General Agreement." 98

This policy provided the legal framework for trade concessions granted to developing countries under the General System of Preferences (GSP), and also allowed such treatment to regional or global arrangements among developing countries for the reduction or elimination of tariffs and non-tariff measures. 99 These arrangements were specifically designed to facilitate and promote the trade of developing countries without raising barriers to or creating "undue difficulties for the trade of other contracting parties". 100 It was argued that since developing countries possessed little bargaining power in reciprocal negotiations, one of the few ways that they could obtain relatively free access to the world's major markets was by granting them these preferential arrangements. 101

The Uruguay Round Agreements reduced the scope of the special and differential treatment that the GATT system had made allowance for to most developing countries and eroded GSP margins of preference. 102 The Agreement sought to promote global trade liberalization and strengthen the multilateral trading system through a number of

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98 Ibid., 18.
99 Ibid.
100 Ibid.
102 Ibid., 384.
measures, including reductions in trade barriers in areas such as agriculture, textile and apparel. The Multifiber Agreement, which was signed as part of the negotiations and deals with textiles and clothing, specified that restrictive trade measures including Voluntary Exports Restraints (VERs), would be phased out. Additionally, safeguard measures which were allowed under GATT were made more transparent and subjected to progressive liberalization. The negotiations also included antidumping measures which were sometimes used as barriers to trade. These were also made more transparent. These provisions allowed for reducing tariffs on a phased basis, to an extent where tariffs will no longer be a major obstacle to the movement of goods among trading partners.

The progressive reduction of non-tariff barriers, export subsidies and other distortions to trade, are all expected to have a negative effect on CARICOM and other developing countries. The likely results of the lowering and reduction of tariffs is that they would be an erosion of the margin of preference from which many CARICOM countries' exports benefit. The following exemplifies the extent to which some Caribbean countries rely on special preferences relating to tariffs with the U.S.:

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TABLE 3.4

CARICOM's Reliance on Special Tariffs Rates with the U.S.
(Selected Countries)

<table>
<thead>
<tr>
<th>Country:</th>
<th>% of Exports not Facing (0%) Tariff</th>
</tr>
</thead>
<tbody>
<tr>
<td>Antigua and Barbuda</td>
<td>82</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>75</td>
</tr>
<tr>
<td>Haiti</td>
<td>66</td>
</tr>
<tr>
<td>Jamaica</td>
<td>73</td>
</tr>
</tbody>
</table>


The lowering of tariffs affords non-preference receiving countries and low cost producers improved access to previously restricted markets to which the Caribbean countries have special treatment. Many of the former are in a better position than the latter to compete in these large markets. However, the Uruguay Round Agreement contained negotiated provisions which allowed the developing countries longer periods for implementing obligations, more favorable thresholds for undertaking certain commitments, and greater flexibility in the implementation of agreements and procedures.

The liberalization of trade in agriculture and the phasing out of the MFA are of special concern to the region, particularly as they relate to the preferences given to CARICOM exports such as banana and sugar where they have already begun facing

107 Ibid.

increased competition. The reduction in domestic support and export subsidies for agricultural products under the Uruguay Round Agreement will likely enable efficient agricultural producers to compete freely for market share. CARICOM producers, who are considered to be not very cost efficient in production, will be at a disadvantage. To worsen the situation for CARICOM members, it is suggested that the implementation of the agreement as it pertains to agricultural products will cause prices of heavily subsidized commodities such as wheat, rice, meat, and dairy products, which CARICOM countries import in large quantities, to rise, and in the process increase their overall import bill.109

There is growing concern among many groups in developing countries that these societies may end up as losers as a result of the Uruguay Round. Christian Aid, a non-governmental organization, reported that certain categories of developing countries - net food importers, countries benefiting from trade preferences, commodity exporters, and countries that are too underdeveloped to take advantage of new trading opportunities, will experience losses and face major structural adjustment problems due to the result of the negotiations.110 The organization cites studies which predict that world food prices will increase as a result of liberalization in the Organization for Economic Cooperation and Development (OECD) countries that reduce or eliminate production subsidies,

109 Ibid., 13.
causing a loss for the agricultural importing countries, particularly in the developing world.111

Another area covered by the Uruguay Round that concerns the CARICOM countries is the Agreement dealing with standards for the acquisition and protection of Intellectual Property Rights (IPRs). There is some level of concern that the Caribbean, being importers of technology, may experience an increase in the costs of acquiring and transfer of technology.112 The agreement reached at the end of the Uruguay Round also eroded the right of countries to keep measures that stipulate, for example, that a foreign investor must use local labor or supplies. This allows investors to buy their labor and supplies in the cheapest possible market,113 which may not necessarily be the country in which they are setting up business. CARICOM countries also see this issue as a potential loss for them. The Uruguay Round initiated a trend in international trade relations marked by a move away from a "two-tiered multilateral trading system encompassing a preferential tier for developing countries, toward a trading system in which all trading partners are bound by the same rules and obligations under an MFN framework.114

The Final Act of the Uruguay Round and the Marrakesh Agreement also established the World Trade Organization (WTO) with its firm commitment to advancing global trade liberalization. The organization which embodies some "50 years of

111 Ibid.
114 "Small and Relatively Less Developed Economies and Western Hemisphere Integration," 25.
multilateral trade negotiations in the GATT,\textsuperscript{115} is in effect the legal and institutional foundation on which the multilateral trading system is to be developed. The agreement which established the organization declares that members should conduct their trade and economic relations with a view to:

- raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand, and expanding the production of and trade in goods and services, while allowing for the optimal use of the world's resources in accordance with the objective of sustainable development, seeking both to protect and preserve the environment and to enhance the means for doing so in a manner consistent with their respective needs and concerns at different levels of development.\textsuperscript{116}

One of the main principles of the WTO is to encourage development and economic reform, by encouraging industrial countries to assist trade in developing countries. However, critics of the organization claim that its stated goals are incompatible with its policies regarding the development of non-industrialized countries. Questions are beginning to be asked as to why the effects of the organization's free trade policies on the livelihoods of people in developing countries are being ignored,\textsuperscript{117} as jobs and economic growth are being jeopardized.\textsuperscript{118}


\textsuperscript{117} Madeley, "Dodging the Paupers' Custard Pies," 1.

\textsuperscript{118} Philippe Legrain, "Not an Ogre, But a Friend to the Poor," \textit{New Statesman} 12, no. 557 (May 1999): 17.
In regards to market access, WTO rules require developing countries to meet the same standards as the industrialized countries - reciprocity in tariff negotiations.\footnote{Finger and Winters, "What Can the WTO Do," 366.}

The "single undertaking" feature of the WTO agreement requires WTO members to accept all of the obligations of the GATT and its side agreements that were part of the Uruguay Round. This means that developing countries are now required to follow or undertake more trade obligations than they were previously required to do under the GATT regime.\footnote{Jeffrey J. Schott, ed., The World Trading System: Challenges Ahead (Washington, D.C.: Institute for International Economics, December, 1996), 3.}

Developing countries that once enjoyed the benefits of some GATT rules without having to join and take on new obligations must now end their "free ride."\footnote{Jeffrey J. Schott, WTO 2000: Setting the Course for World Trade (Washington, D.C.: Institute for International Economics, 1996): 1.}

In addition, becoming a member by assuming the full obligations is very burdensome and has the potential to expend disproportionate amounts of resources\footnote{Finger and Winters, "What Can the WTO Do," 390.} for some less developed countries, including CARICOM members. Also, the transition period given to less developed countries to become full members is relatively short, allowing them little time to continue enjoying the "free rider" benefits.\footnote{Schott, The World Trading System, 4.}

In 1998, NGOs from developing countries formed a "global alliance of people's movements " to coordinate resistance against free trade, globalization and the WTO.\footnote{Madeley, "Dodging the Paupers' Custard Pies," 27 - 28.}
Activists from India spoke at the WTO meeting in Geneva in 1998, proclaiming that globalization, especially lower tariff barriers on food imports into the country, had severely damaged many people's lives.\textsuperscript{125} To some critics of the WTO, globalization is viewed as a set of polices which allows the weaker members of the global society, peasant farmers, to be put into the same economic stream as the most powerful actors in the world trading system, transnational corporations.\textsuperscript{126}

At the African Caribbean Pacific (ACP) 1999 meeting, representatives from some of the member states became outraged when some members of the EU insisted that the Lome Convention needs to be changed in regards to the granting of preferential access to the ACP countries' exports in the European markets. The Deputy Prime Minister of Barbados, Billie Miller, suggested that the:

\begin{quote}
WTO is not the master but the servant of human welfare...negotiations must not be conducted as if WTO rules are written on tablets of stone. Rather, the rules should be applied on the basis of flexibility, to make them compatible with the basic objectives of development. If not, they will have to be revisited.\textsuperscript{127}
\end{quote}

Critics would like to see WTO policy change, making free trade compatible with social and economic development.

However, the organization does enjoy some support in both developed and underdeveloped countries. Advocates of the WTO's free trade policies claim that developing countries can benefit from the organization's polices in a number of ways. They suggest that because open economies are able to attract foreign investment and

\textsuperscript{125} Ibid.
\textsuperscript{126} Ibid.
\textsuperscript{127} Ibid.
technology, even the poor in these countries can buy cheap imports rather than rely on poorly made, over-priced goods produced by local monopolies.\textsuperscript{128}

Supporters claim that the organization may in fact help the poorer, developing countries based on the premise that it is founded on a system of rules where the weak and the strong states have an equal say. Thus whenever a country feels that another is breaching the rules, it can appeal to an impartial panel whose rulings are binding, even on the larger more powerful resource rich members.\textsuperscript{129} As an example, they cite one ruling against the U.S. where the WTO ruled that the U.S. had to lift its restrictions on imports of Costa Rican underwear. In 1995, the U.S. set quotas to prevent imports of men's and women's underwear from some Caribbean and Central/Latin American countries from growing beyond their 1994 levels. Some countries, including Costa Rica, threatened to take their case before the WTO, causing the U.S. to back off and offer the countries more generous deals.\textsuperscript{130}

There are also those who feel that developing countries should become more proactive and less reactive to the multilateral negotiations within the WTO. As a group that comprises close to three quarters of the membership in the WTO, by uniting their efforts they may be able to focus negotiations more on issues that they want discussed, and less on extraneous issues such as the enforcement of labor and environmental

\textsuperscript{128} Legrain, "Not an Ogre, But a Friend to the Poor," 17.

\textsuperscript{129} Ibid.

\textsuperscript{130} Howard Banks, "Uncle Sam's Underwear Deals," \textit{Forbes} 156, no. 3 (July 31, 1995): 37.
standards that the WTO seems bent on pursuing.\textsuperscript{131} It is also suggested that these countries should become prepared to exchange liberalizing trade concessions on a most-favored-nation basis in exchange for improved access to the markets of their trading partners; and that these efforts should focus on establishing realistic transition periods and technical assistance to compensate for their limited institutional capacity and resources.\textsuperscript{132}

One of the primary ways that the WTO has chosen to advance trade liberalization is to challenge the protectionist and preferential policies that have been pervasive in, and impactful on developing countries' trading systems. Under the GATT, developing countries were not overly concerned when these policies were challenged. However, under the WTO, indications are that it will not be business as usual. One such example involves the on-going banana dispute between the U.S. and the EU in regards to the New Banana Regime which affects the fruit being exported from the CARICOM states.

Nevertheless, the WTO in an effort to repair its image and rebuild confidence in the organization in the aftermath of the Seattle conference fiasco where large demonstrations against the organization disrupted meetings and presented negative public relations problems in November 1999, urged the Quad Group (the EU, U.S., Canada and Japan) to come up with a proposal aimed at launching a new round of global trade talks. These talks are intended to make progress in allowing greater market access for imports


from the LDCs, and to push for greater funding for the WTO technical assistance and training programs for developing countries estimated at $US 6 million annually. Although the Quad Group supported the assistance program in the proposal they submitted to the WTO, they failed to commit adequate resources to it. The developing countries strongly criticized the proposal by the Quad Group as meaningless, citing that it failed to give assurances that greater access to the developed countries' markets will be extended to developing countries, particular in the areas of agriculture and textiles. These products are considered sensitive to the developed countries, but they are also very important sources of foreign exchange for the LDCs.

**Other Challenges Facing CARICOM**

CARICOM countries are already beginning to feel the effects of the ongoing expansion of the EU and the creation of the Single European Market (SEM). The production capability of some of the southern members of the EU put them in direct competition with some CARICOM states which enjoy certain preferential treatment within the EU markets. This situation has already begun to cause much debate both within the EU and among countries in the ACP in which CARICOM is an integral part.

In addition to the structural repositioning of the EU, another market which is vital to CARICOM and which is beginning to show signs of a shift in focus is Canada. The country has begun to realign its political and economic interests in the Western Hemisphere to include many more countries in Latin America and Mexico, and also to

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134 Ibid.
include many more products.\textsuperscript{135} Many of the products which CARICOM countries supplied or can supply to the Canadian market are also produced in Mexico and other Latin American countries at lower costs of production. CARICOM's small market size also make it "strategically less important " than the larger Latin American market, posing a serious threat to the CARICOM countries being "marginalized at the policy making level" in Canada.\textsuperscript{136}

Another challenge for CARICOM has been the decrease in official capital flows to the region. Since the early 1990s, according to a 1994 World Bank report, the sources of external finance available to the Caribbean region have changed tremendously. Net capital flows from bilateral and multilateral sources have decreased, from an annual average of $70 per capita during 1980 - 1982, to an average of $31 per capita for 1990 - 1992.\textsuperscript{137} Net lending from multilateral sources decreased from $546 million in 1982 to only $72 million in 1992, while net bilateral lending showed a negative balance in 1992 of negative $32 million compared with $603 million in 1982.\textsuperscript{138}

Another source of funding to the region that showed a decrease was in USAID funds. Total U.S. assistance were reduced from $217 million in 1992 to around $180 million in 1993 for the region as a whole. For Jamaica, total U.S. assistance was $133 million in 1992, but only about $68 million in 1993; for St. Kitts, St. Lucia and St.


\textsuperscript{136} Ibid.


\textsuperscript{138} Ibid.
Vincent, the amount in 1989 was $1 million, but fell to zero in 1993.\textsuperscript{139} The World Bank estimates that this downward trend is likely to continue since the donor communities perceive the region as a whole as one that has attained a level of development in which the needs are less urgent than those of Africa, and Eastern and Central Europe.\textsuperscript{140}

All these developments have presented a situation for CARICOM that can be viewed as either a challenge or an opportunity to confront the changing global environment. The situation is one which requires the region to become more competitive, and to reach out beyond its traditional boundaries to form new relationships with a wider group of trading partners. The CARICOM leadership has already taken the initiative and was instrumental in the formation of the Association of Caribbean States (ACS) in 1994 and the signing of several bilateral trade agreements with countries such as Venezuela and Colombia. These arrangements offer CARICOM the opportunity to become used to engaging in trade in an environment that differs substantially from the one in which their economies are founded, that of non-reciprocity.

By establishing the ACS, it was hoped that the organization would provide a framework for widening trade relations and other forms of economic and functional cooperation among Caribbean states, widely utilizing the principle of reciprocity. The ACS was perceived as one under which bilateral negotiations within the hemisphere and

\textsuperscript{139} Suarez, "The Caribbean in Economic Transition," 131.

\textsuperscript{140} Ibid., 130.
multilateral between the region and extra-regional states would be conducted.\textsuperscript{141} With 37 states, a cumulative population of 202 million, combined GDP of around US $508 billion, the ACS has the potential of being a significant trading partner to the U.S., and can function as a conduit that allows the CARICOM countries to overcome the size disadvantage which most small economies have.\textsuperscript{142} The ACS, though, has yet to fulfill its promise.

In the case of the Venezuela/CARICOM agreement, the provision was made for duty free access for a limited number of CARICOM products into the Venezuelan market for a period of 5 years after which the Agreement will convert to one of a reciprocal nature. The case is similar for the Colombia/CARICOM Agreement.\textsuperscript{143}

The signing of the NAFTA Agreement between the U.S., Canada and Mexico adds another more challenging level of complexity and uncertainty to what the Uruguay Round and the other developments already outlined, have presented for the Caribbean economies.

**The Problem That NAFTA Poses For CARICOM**

NAFTA is viewed as a manifestation of the recent trend towards trade liberalization and reduction in protectionism. This on-going process is seen as one that will force the Caribbean states to adopt and implement revised strategies which will


\textsuperscript{142} Bryan, "Coping With the New Dynamics," 243.

allow them to compete more effectively as the preferences they at present receive under the programs such as the CBI are dismantled.144

CARICOM sympathizers have identified a number of areas which they believe will experience negative effects as a result of the implementation of NAFTA. However, the ones that seem to elicit much concern are Trade Investment Diversion and Export Displacement. A study by the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) concluded that NAFTA is "likely to cause diversion of trade and investment into Mexico away from the rest of the Latin American and Caribbean countries."145 Some Caribbean politicians and officials have echoed similar sentiments suggesting that investors who are thinking about establishing factories in the region would be more likely to choose Mexico instead of CARICOM because of the superior market accessibility their products will enjoy under NAFTA.146 Richard Bernal, the Jamaican Ambassador to the U.S., has stated that the elimination of quotas and the phasing out of tariffs on Mexican products under the Agreement, could erode the advantage enjoyed by the CBI exports to the U.S., resulting in a diversion of the U.S. demand for suppliers in the Caribbean to firms in Mexico.147


145 United Nations Economic Commission for Latin America and the Caribbean, "Open Regionalism in Latin America and the Caribbean: Economic Integration as a Contribution to Changing Production Patterns with Social Equity" (Santiago, Chile: UNECLAC, 1994). 1


Seymour Mullings, Jamaica's Minister of Foreign Affairs, reaffirms this position when he suggested that "the stark reality is that Mexico can now export its products to the United States free of duty, which makes it more profitable for producers to operate from here."\textsuperscript{148} As a result of Mexico's larger domestic market and lower real costs of production, it is projected that new investments will also be attracted to Mexico rather than to the Caribbean, whose economies will need to greatly increase their productivity levels in the affected industries in order to become "effective competitors for international investment" in this new evolving global process.\textsuperscript{149}

In addition to investment diversion, one preliminary study predicted that the likelihood of investment displacement occurring as Mexico becomes a more attractive location will increase and subsequently be a catalyst for uprooting already existing investments in CARICOM states their transplanting them to that country.\textsuperscript{150} The same study showed that the trade losses to CARICOM due to displacement of CARICOM exports by Mexico should be less than 2% and that the major products which will be affected are clothing, clothing accessories, and to a lesser extent, footwear.\textsuperscript{151} These products along with leather and leather related products, petroleum and petroleum products are the region's major non-traditional export, accounting for 30% of total U.S. imports from the region.\textsuperscript{152}

\textsuperscript{150} Ibid., 50.
\textsuperscript{151} Ibid.
As early as 1995, U.S. industry officials claimed that NAFTA has led to a "measurable diversion of apparel trade and investment from CBERA countries to Mexico." Bennett Marsh, trade policy and legislative director of the Caribbean and Latin American Action (CLAA), a Washington D.C. based group that advocates closer relationship between the U.S. and CBI countries, worried about the impact NAFTA will have on the Caribbean countries vis-à-vis Mexico:

NAFTA eliminates all duties on Mexican products, but only about 5% of total Caribbean exports to the U.S. receive duty free benefits via the CBI... The discrepancy, coupled with easier overland transportation and an ability to secure far cheaper labor than is available in CBI countries, gives Mexico a real advantage... The threat that NAFTA poses to CARICOM also arises in respect to the nature of the NAFTA and the CBI agreements. Although most non-sensitive products from both Mexico and the CBI countries now enter the U.S. duty free under the provisions of the GSP, NAFTA gives Mexico the advantage that its duty free access is now permanent. On the other hand, the CBI, because it is a unilateral, non-reciprocal U.S. policy, can be altered at any time by the Congress. The implication of this is that NAFTA gives more security and permanency to Mexico's duty free access than the CBI affords the Caribbean. Some believe that investors are more likely to prefer a "binding treaty to the granting of a privilege" as a basis of making an investment decision. Products such as

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apparel, footwear, and leather goods which are dutiable under CBI, are expected to be granted gradually phased-in duty reductions under NAFTA.\footnote{Ibid.}

At an International Trade Commission hearing, Michael Rothbaum, the CEO of The Harwood Companies which before NAFTA took steps to open a second apparel manufacturing facility in Honduras, testified that the project will be abandoned unless CBI nations were granted the same treatment as Canada and Mexico under NAFTA.\footnote{Ibid.}

The executive noted that:

an analysis of labor costs and duties shows us that if NAFTA is enacted with no corresponding benefit to Honduras, then Mexico should be the location for our new plant. . . . I am convinced that NAFTA agreement with Mexico, without the same trading advantages to the CBI countries, will bring about substantial disinvestment in apparel production in the Caribbean Basin in no more than 5 to 7 years.\footnote{Ibid.}

Another executive in the manufacturing industry, Tom Korbas, Senior Vice President of operations of American Tourister, hinted that his company was seriously considering closing its Dominican Republic plant and moving to Mexico in order to save costs.\footnote{Ibid.}

Some companies had already begun relocating to Mexico in anticipation of NAFTA. A spokesman for an unidentified medium sized company said that his company began curtailing materials sourcing in the Dominican Republic and was negotiating a shift to Mexico. He explained that “what we need will very likely be brought onto Mexican soil


\footnote{Ibid.}

\footnote{Julie Ritzer Ross, "Shippers Question CBI," \textit{Global Trade} 112 (October 1992): 15.}

\footnote{Ibid.}

\footnote{Ibid.}
from the Far East and made available to us duty-free. Transacting business under CBI is not an advantage anymore.\textsuperscript{161}

Steve Lande, a Washington consultant who heads the Manchester Group, suggested that business people were withholding new orders from the Caribbean, were limiting investment, and that the growth rate in the Caribbean could not continue given the situation with NAFTA.\textsuperscript{162} These concerns are shared throughout the Caribbean and particularly in the textile/apparel industry. Peter King, Chairman of the Caribbean Textile Apparel Institute, observed that:

\begin{quote}

some of Mexico’s growth has been the result of the diversion of investment from the Caribbean Basin . . . we are not unduly worried just about Mexico’s growth, but concerned Caribbean Basin producers could go under because of it.\textsuperscript{163}
\end{quote}

However, not all the sentiment about NAFTA’s impact on CARICOM are bleak and pessimistic. American Airlines Vice President of Cargo Sales, Steve Leonard, suggested that any advantages pertaining to Mexico will draw more business from Asia, rather than taking it away from the islands. He noted that “NAFTA is a lure for greater hemispheric business, not a loss for the Caribbean.”\textsuperscript{164} Others feel that the Caribbean should not worry about the trade and diversionary impact of NAFTA on the Caribbean because there are several existing or proposed programs that will reduce NAFTA’s

\textsuperscript{161} Ibid.


\textsuperscript{164} Selwitz, “CBI Nations Cry Foul When It Comes to NAFTA,” 6-7.
negative impact on the area and offer business some great opportunities. One such program that was administered by Puerto Rico, Section 936, offered below market rate financing for investment in CBI countries that had signed Tax Information and Exchange Agreements. The program which has been discontinued for fiscal reasons in the U.S., however, was not highly utilized by the CARICOM countries.

In addition, it is felt in many circles that if NAFTA is able to increase the wealth of Mexico, Canada and the U.S. as it is intended to do, then CBI countries can benefit from their own trade relations with the larger, richer market. Rodney Schonland, Manager of Trade and Relations for Polaroid Corporation, noted that the impact will not be great for the Caribbean since “manufacturing in Mexico is no more convenient than doing so within the Basin, except the maquiladoras along Mexico’s border.” There are even those who suggest that NAFTA should be seen as an opportunity and not as a threat, as a catalyst that may help to rally domestic support for reform.

Caribbean leaders too, have recognized the necessity for change and had taken the initiative in implementing economic reform programs including trade liberalization even prior to both the enactment of NAFTA and the end of the Uruguay Round. Steps that the governments in the region had taken included making progress in the creation of a single

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166 Ibid.


market and economy, the lowering of the Common External Tariff, and the separate agreements with Venezuela and Colombia, which as indicated earlier, would eventually lead to reciprocal arrangements. Some leaders within the CARICOM are also urging that the governments take steps to intensify the diversification of their economies, and begin to take a more proactive approach to dealing with the global changes sweeping the international system.

One earlier strategy designed to lessen the negative impact of NAFTA that was supported by CARICOM leaders was a NAFTA-parity proposal. HR 1403, the Gibbons Bill, named after Representative Sam Gibbons of Florida, attempted to give parity to CARICOM countries in regards to access to U.S. markets as is given to Mexico under NAFTA. The legislation which failed to pass when it was first introduced, was designed as a "transitional arrangement" to enable the Caribbean economies to prepare for fully reciprocal trade with the U.S.  

HR 553, another bill introduced by Philip Crane in the House of Representatives, and S-529 introduced by Bob Graham in the Senate, calling for NAFTA-like treatment for apparel and other exempted manufactured goods, languished in Congress after failing to be passed in the 103rd Congress. However, in November 1999, after much wrangling in Congress, H.R. Bill 434, which lowers or eliminates tariffs and quotas on products from the region (as well as from sub-Saharan Africa) was passed in the Senate. This was superceded by the eventual passing of the Caribbean Basin Partnership Trade

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Act (CBTPA) which was signed into law in May 2000, and which was the culmination of a major effort mounted by CBI governments to alleviate the perceived negative impact of NAFTA on the region. This ACT will be discussed in more detail in a later chapter.
CHAPTER 4

CARICOM'S PREFERENTIAL TRADE ARRANGEMENTS:

For more than twenty five years, CARICOM economies have built their trading relationships with the industrialized countries around preferential and non-reciprocal arrangements. Despite the nature of these arrangements, three of them, the CBI, Lome and its successor agreement, and CARIBCAN are of greater importance to the countries' economies than are others, particularly in the level of dependence that these economies have developed on the arrangements. This chapter will deal with the main preferential trade agreement, the CBI, that the Caribbean nations share with the U.S. However, it will first briefly discuss the other arrangements that were important elements of their overall participation in international trade.

The GSP

Tariff preferences for developing countries had been explicitly permitted in Article XV of the International Trade Organization's Charter, but were not included in the GATT. However, the GSP was introduced in 1971 as a GATT waiver permitting a preference scheme for developing countries. The introduction of this system legalized a trend at that time that departed from the non-discrimination principle which permeated world trade.¹ Individual GSP schemes were designed by the developed countries (the

donors), and included many exclusions some of which included agricultural products and labor intensive manufactured items, and commodities in which developing countries had a comparative advantage.2

In order to receive any duty free treatment under the GSP program, eligible items from beneficiary countries must meet certain rules or origin, which stipulate that 35% of the product must be added by a single beneficiary/country3. Eligible items from beneficiary countries must pass a competitive need test that consist of a dollar value limit set each year, and a 50% limit for each tariff line item.4 The U.S. GSP schemes included ceilings or volume limits beyond which Most Favored Nation (MFN) tariffs would apply. With this arrangement, "automatic triggers" were applied for the removal of GSP benefits when GSP imports of a product, or the share of a single developing country in total GSP covered imports of a product, reached specified levels.5

The GSP program therefore allows a country/product to graduate from the system if these stipulations no longer hold in regards to the country or product. This feature together with rules of origin stipulation therefore serve to substantially reduce the coverage of GSP for developing countries, including the CARICOM economies.

2 Ibid., 106.


4 Ibid., 755.

5 Pomfret, The Economics of Regional Trading Arrangements, 106.
For the Caribbean countries, after the introduction of the CBI, the GSP declined even more in importance as a conduit to duty free access to the more developed countries' markets. The share of U.S. imports from the Caribbean Basin, including CARICOM, entering under the GSP has been declining over the years because products which are eligible for duty-free entry under either GSP or CBI increasingly have entered under the CBI. Also, the total absence of the GSP program, when it was not resumed for the first three quarters of 1996, further depressed the share of entries under GSP during that year. The GSP was reinstated in October 1996, but lapsed again in May 1997.

From its inception, the GSP program excluded textile and apparel articles subject to international textile agreements. With the renewal and amendments to the GSP program in 1984, the list of products that was designated as not eligible articles under the program was expanded to include footwear, handbags, luggage, leather flat goods, and leather wearing apparel. This served to further weaken the importance of the program to CARICOM countries. In 1997, 1.4% of imports from Caribbean Basin economies entered under the GSP, compared with 6.8% in 1984.

As the participation of developing countries in the GATT and WTO increases, the basic foundation of the preferential system is weakened. Some developing countries

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7 Ibid.


have already been graduated from the GSP, diminishing the numbers of countries still clinging to the system.\textsuperscript{10} Nevertheless, the GSP was one of the most important features of trade relations between the U.S. and the Caribbean prior to the establishment of the CBI.

\textbf{CARIBCAN}

Canada's economic, political and cultural relations with the English speaking Caribbean were developed as early as the beginning of the 18\textsuperscript{th} century when Atlantic Canada traded fish and timber for West Indian rum, sugar and molasses.\textsuperscript{11} Since then, trade relations between the countries have remained particularly strong. The Canada/West India Agreement which came into effect in 1926 provided access to Canadian markets for traditional commodities and also made provisions for development assistance.\textsuperscript{12} The main areas in which Canada and CARICOM have established economic, political and cultural links are through imports, selected exports to Canada, migration to Canada and the remittances of the migrants, foreign direct investment (banking, insurance, tourism and public utilities) and official development finance particularly in the funding of infrastructure projects.\textsuperscript{13}


\textsuperscript{13} Ibid.
In June 1986, the Canadian government passed into law CARIBCAN, a program aimed at encouraging trade, investment and industrial cooperation with the Commonwealth Caribbean region.\textsuperscript{14} Canadian and Caribbean leaders, in signing the Agreement, sought to foster expanded trade with Canada through preferential commercial arrangements for non-traditional exports, particularly garments, cigars, and footwear.\textsuperscript{15}

This preferential commercial feature that offers duty-free access to the Canadian market to most Commonwealth Caribbean exports, is the backbone of the arrangement. Before CARIBCAN was implemented, 93\% of the Caribbean countries' exports entered Canada duty free. With CARIBCAN, it is estimated that less than 1\% of product categories are excluded from the tariff-free treatment.\textsuperscript{16} Products which are excluded under this act include textiles and clothing, footwear, luggage and handbags, leather garments, lubricating oils, and methanol.\textsuperscript{17} These manufactured items, however, have been identified by Caribbean leaders as the ones offering the best opportunities for rapid economic diversification and export development for the region.

In order to qualify for duty free access under CARIBCAN, at least 60\% of ex-factory value of eligible products must originate in the Commonwealth Caribbean or


\textsuperscript{15} Ibid.

\textsuperscript{16} Ibid.

\textsuperscript{17} Ibid., 3.
Canada.\textsuperscript{18} These restrictions, including the exclusions criteria for rules of origin and other safeguard provisions, have not been well received by Jamaican and other Commonwealth Caribbean officials.

Also included in CARIBCAN are programs to strengthen the exporting capabilities of the countries involved, as well as seminars for diplomats and business people from the region on strategies for developing markets for Caribbean products in Canada. The program affords access to the regional offices of Canada's Department of Regional Industrial Expansion to assist Caribbean trade officials in promoting bilateral trade.\textsuperscript{19}

Imports from CARIBCAN countries account for only .23\% of Canadian imports with the most important being bauxite from Jamaica. Food and beverage items, crude and refined petroleum, and other manufactured goods make up the rest of the imports. Telecommunications and related equipment exports from Barbados have been on the increase since 1984.\textsuperscript{20}

Canada's direct investment in CARICOM's manufacturing sector is relatively small, particularly when compared to the U.S. investment. For this and other reasons, such as the volume of trade between Canada and CARICOM, not much attention has been paid to the US/Canada trade in NAFTA as they relate to any diversionary effects of


\textsuperscript{19} Hyett, "Caribcan," 64; "Impact of Canada-United States Free Trade," 3.

\textsuperscript{20} "Impact of Canada-United States Free Trade," 4.
trade and investment from the Caribbean. On the contrary, one study forecast that NAFTA is more likely to have a positive outcome for the CARICOM states. As corporate profits in Canada increase as a result of NAFTA, it is predicted that there will be a greater import demand in Canada which will subsequently import more from the CARICOM countries.21

The Lome Convention

The Lome Convention signed in 1975 between the European Community and the ACP group of countries was seen as a new form of North-South cooperation at the time it came into being, and had since been regarded as one of the most generous of the European Union's hierarchy of preferences for developing countries. Its stated purpose was to promote "trade between the ACP states and the Community, taking account of their respective levels of development, and also between the ACP states themselves."22

The Agreement was designed to act as a catalyst for promoting the economic, cultural and social development of the ACP states by granting duty free access to the European Community's market.23 The first Lome Convention agreement covered the period 1976 to 1980, and was followed by three successive agreements, the last of which expired in 2000. Other principal features of the Lome Conventions included areas of cooperation, programmed aid and commodity export earnings stabilization.24

21 Ibid., 8.


23 Pomfret, The Economics of Regional, 95.

Trade

Trade, the main component of the program, provided for non-reciprocity involving one-way duty free access for a substantial percentage of ACP products. ACP agricultural and processed agricultural products were exempt from customs duties and preference was given to ACP products over those from non-member countries.²⁵ Such access was unlimited for industrial products and surpassed the provisions of the GSP which established competitive need ceilings on some of these products. Also, the tariffs under Lome on agricultural goods were lower for a wider range of commodities compared to the levels under the GSP.²⁶ Since the first Lome, trade provisions were broadened to improve access for some additional ACP products such as rice, strawberries, tomatoes, tropical fruit and vegetables.²⁷

There were a limited number of agricultural products, for example, bananas, sugar, and rum, which came under specific arrangements on protocols in the agreement. These commodity arrangements were established to ensure stable and remunerative prices for the major export staples to the European Community’s market. Under the Rum Protocol, the ACP nations were able to export annually, a specific, fixed quantity of rum free of customs duties. Some ACP countries, including the Caribbean nations of Jamaica, Barbados, Trinidad and Tobago, and Guyana, had benefited a great deal from


²⁷ Ibid., 56.
this protocol.\textsuperscript{28} The Sugar Protocol enabled the ACP states to export guaranteed amounts of sugar cane at the Common Agricultural Policy (CAP) prices, which were about two to three times higher than the world market price.

The Banana Protocol was the one arrangement in the Agreement that caused much controversy both within the EU and outside Europe in recent years. Bananas from the ACP countries enjoyed special privileges that gave them an advantage over fruit from non-ACP member countries. However, with the establishment of the Single European Market (SEM), a New Banana Regime (NBR) was implemented which was designed to satisfy several considerations, including protecting the preferential arrangement with the ACP countries until the conclusion of the Lome IV in 2000. The NBR in effect sought to maintain guaranteed access to ACP bananas particularly for those member countries whose economy was heavily dependent on banana exports. It tried to guarantee the incomes of European producers, and support the European companies involved in the industry in anticipation of the rising competition expected from the American transnational corporations.\textsuperscript{29}

Before 1992, there were three distinct banana regimes in the European market, where consumers in some countries paid more for their bananas (as in Britain and France) than those in others (as in Germany):


\textsuperscript{29} Clive Bishop, "The Impacts of Integration on the Caribbean Banana Market" (n.p., Windward Islands' Farmers Association, n.d.): 17.
- A preferential market for France, Britain, Spain, Italy, Portugal and Greece for producers from either the EU and/or ACP countries;
- A duty free market in Germany; and
- A market that was subject to 20% tariff in Denmark, Ireland, Belgium, the Netherlands, and Luxembourg.30

While the ACP producers, overwhelmingly from the Caribbean, supplied the vast majority (88%) of the market in the U.K., and 35% of the French market (mainly from African producers), the dollar producers of Latin America supplied close to 100% of the bananas to the Belgian, Danish, and German markets; 90% in the Irish and Dutch markets; 85% in the Italian market and 12% in the U.K. market.31 The dollar producers of Latin and Central America are mainly controlled by three U.S. multinationals - The United Brands (Chiquita) with 35% of the world market; Standard Fruit (Dole Foods) with 20%; and Del Monte with 15%. Together, they control about 66% of the EU market.32 With the establishment of the Single European Market (SEM), these different regimes were replaced by a single one that would be universally applicable. It is therefore not surprising that the NBR (1993) was opposed by interests both within and outside the EU. In the case of the former, Germany was forced to buy greater quantities of more expensive bananas.

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31 Ibid.