

**FRIEDRICH
EBERT 
STIFTUNG**

CARICOM
CENTRAL AMERICA
AND THE
FREE TRADE
AGREEMENT
OF THE AMERICAS

Two Contributions

NORMAN GIRVAN
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CARICOM, Central America
and the
Free Trade Agreement of the Americas

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Contents

Preface / iv

1 Caribbean-Central American Relations and the FTAA / 1
Norman Girvan

2 The Island Caribbean in the Dynamics of Hemispheric
Integration / 20
Miguel Ceara Hatton

Strategic Alliance Declaration between Central America
and the Caribbean / 44

Preface

CARICOM, Central America and the Free Trade Agreement of the Americas (FTAA): Recent Developments is the name of the seminar at which these papers were presented by the Jamaica office of the Friedrich Ebert Stiftung (FES), in collaboration with the Association of Caribbean Economists (ACE) in May 1998. The holding of this seminar was an attempt to bring to public attention some of the important developments which have been taking place in the relations between CARICOM, Central America, and the Dominican Republic, even as the FTAA process itself is unfolding.

In addition, reports on the discussions which took place at the 2nd Summit of Americas in April 1998 brought into sharp focus the level of interconnect-edness between regional and sub-regional integration issues and the FTAA process. Despite the possible impact that these integration processes and the related agreements are likely to have on Caribbean countries, the level of public debate about these critical issues in external relations has been minimal. Against this background, the seminar was organized to allow for the presentation and discussion of two complementary perspectives on Caribbean-Central American relations, the FTAA and the hemispheric integration process. These papers provide analyses of the most recent developments, and also examine the options and challenges facing CARICOM countries in this rapidly developing scenario. Also of importance is the "Strategic Alliance Declaration between Central America and the Caribbean" which has been proposed by the government of the Dominican Republic. To complete this publication, this document has been included as an Appendix.

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May 1998

Caribbean-Central American Relations and the FTAA

Norman Girvan

Hemispheric Integration Gathers Momentum

The 2nd Summit of the Americas just concluded in Santiago de Chile launched formal negotiations for the establishment of the Free Trade Agreement of the Americas (FTAA) by January 2005. In the run-up to the summit, several agreements or proposed agreements among integration groupings in the hemisphere were announced. In this article, we review these and other recent developments from the perspective of the interests of Caribbean Community (CARICOM) member states.

Among the most significant pre-Summit developments of interest to CARICOM are:-

- Agreement on the establishment of A Free Trade Zone (FTZ) between Mercosur (the South American Common Market, whose members are Brazil, Argentina, Uruguay and Paraguay) and the Andean Community to come into effect in January 2000. The FTZ would incorporate the vast majority of the economies on the South American continent 5 years before the FTAA comes into effect.
- A proposal from the Dominican Republic for the formation of a Strategic Alliance between the Caribbean and Central America, to be discussed at a meeting of Foreign Ministers of the two subregions in May. The proposal envisages a free trade area embracing the two subregions and the coordination of external trade negotiations across a wide front.

- Signing on April 16 of a free trade agreement between the Central American Common Market (CACM) and the Dominican Republic, to come into effect in January 1999.
- Signing on April 18 of a trade and investment agreement between the CACM and Mercosur.
- Joint commitment between the CACM and Chile to negotiate a free trade agreement.
- On-going negotiations on free trade agreement between Mexico and three Central American countries – Guatemala, El Salvador and Honduras – scheduled to be completed in July.

The CACM countries are also taking steps to strengthen their own internal integration system, and to diversify and restructure their extra-hemispheric trade relations. The Presidents of the "Isthmus" (Central America and Panama) met early this year and agreed on an action plan to strengthen the Central American Integration System (SICA). A Central American Parliament – PARLACEN – is now functioning and will soon commence debate on a proposal for the establishment of a Central American Union.

In external relations, developments in recent months have included:

- A CACM-EU Ministerial meeting to amplify trade and development cooperation between the two groups: the EU is to extend trade preferences for CACM countries to some agricultural products
- A CACM-Canada agreement on trade, investment, and trade promotion.
- Ongoing negotiations on trade and economic cooperation between the CACM and Japan, Taiwan, Korea, and Morocco.
- A proposed meeting of the Heads of Government of Central America, Belize and the Dominican Republic, with 18 Governors of southern U.S. states, to discuss trade and investment promotion. The meeting is planned to take place in Puerto Rico in August 1998.
- Coordination of the positions of Central America and the Dominican Republic for the Santiago Summit.

There are other indications of a more active Central American policy in the Caribbean basin. For instance, President Aleman of Nicaragua has recently been to the Dominican Republic, Governor Rosario of Puerto Rico has been visiting Central America, and the Cuban foreign minister Roberto Robaina recently addressed the Central American Parliament. The Central American airline – TACA – has announced plans to begin services to Cuba and the Dominican Republic, and moves are afoot to abolish visa requirements between the Dominican Republic and several Central American countries. There have also been calls for the Dominican Republic to become a member of the Central American Parliament.

In summary, our Central American neighbours are accelerating their efforts to develop trade relations with other countries and subregional groupings within the hemisphere, as well as to restructure their extra-hemispheric trade relations. As part of this process, they are reaching out to other countries in the Caribbean Basin, with the Dominican Republic positioning itself to act as a bridge between the two subregions. At the same time, they are strengthening their internal integration arrangements in the aftermath of the end of civil conflicts in that hitherto troubled region.

The bigger hemispheric picture shows that the other principal subregional groupings are also establishing trade agreements among themselves in the run-up to the start of formal negotiations on the FTAA. The pattern of events suggests that the major players in the hemisphere are seeking to establish, and to strengthen, their bargaining positions in anticipation of the upcoming negotiations.

What of the position of CARICOM? How should it respond to the proposed alliance with Central America? And how will it reconcile its trade relation negotiations with the EU and its lobbying for NAFTA parity with the FTAA negotiations? Is there a risk that we will be left behind, or marginalised, in the FTAA process as the larger players position themselves?

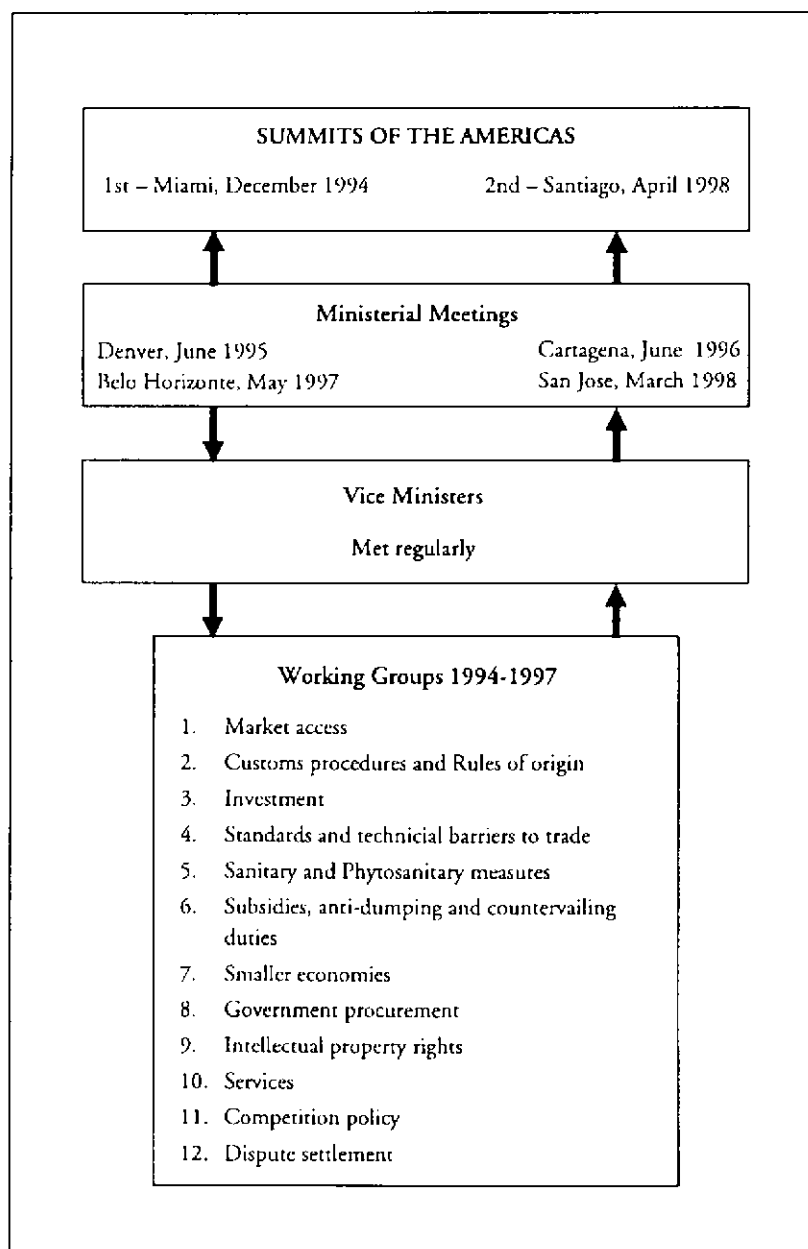
In attempting to elucidate these questions, this article continues by reviewing the process leading up to the FTAA negotiations and discusses the content of the proposed Caribbean-Central American alliance against that background. We also point to the implications of the proposed changes in the EU-ACP relationship, and review the progress of establishing the CARICOM Single Market and Economy. The possible future role of Cuba in these processes is also discussed. Finally, some conclusions are drawn on the various strands of the external negotiation strategy of the subregion.

The FTAA process that began in December 1994 has proceeded at several levels, as shown in Figure 1. The aim is to conclude negotiations on the establishment of a hemispheric free trade zone by January 1, 2005. The technical preparations have been carried out in 12 Working Groups whose themes relate to the main subject areas expected to be covered by the agreement. Support has been provided by the IDB, the OAS, and ECLAC.

The Declaration of San Jose, adopted by trade ministers in March 1998 and ratified at the Santiago Summit, sets out the main elements of the framework of formal negotiations to commence by June. The agreed structure, negotiating groups, and principles of the negotiations are shown in Box 1.

The seventh principle is of particular interest. It permits countries to participate in the negotiations either individually or *as member of a sub-regional integration group negotiating as a unit*. Present thinking is that Mercosur, the Andean Community, the CACM and CARICOM may negotiate as groups,

Figure 1. Background to the FTAA negotiations



Box 1. FTAA Negotiations: Structure and Principles

The Declaration of San Jose, adopted at the Ministerial Meeting of March 1998 and ratified at the 2nd Summit of the Americas, outlined the following structure and principles on the FTAA negotiations.

Structure

Negotiations to be the direct responsibility of a Trade Negotiating Committee (TNC), at the Vice Ministerial level, meeting twice a year. Negotiations to be concluded by January 1, 2005. Final stages will be co-chaired by Brazil and the United States. 9 negotiating groups established on:-

- | | |
|---------------------------|---|
| 1. Agriculture | 6. Competition policy |
| 2. Market access | 7. Dispute settlement |
| 3. Investments | 8. Intellectual Property Rights |
| 4. Services | 9. Subsidies, antidumping and countervailing duties |
| 5. Government Procurement | |

A Consultative Group on Smaller Economies will monitor negotiations and report directly to the Trade Negotiating Committee on matters affecting the interests of smaller economies.

General principles

1. Decisions will be made by consensus.
2. Negotiations will be transparent.
3. The agreement will be consistent with the terms of the WTO
4. The agreement will improve on WTO rules and disciplines wherever possible.
5. Negotiations will be simultaneous and will be treated as parts of a single undertaking.
6. The FTAA can co-exist with bilateral and sub-regional agreements, where the terms of such agreements are not covered by, or go beyond, the terms of the FTAA.
7. Countries may participate individually or as member of a sub-regional integration group negotiating as a unit.
8. Special attention to be given to the needs and conditions of smaller economies.
9. In various thematic areas, measures such as technical assistance and longer implementation periods may be included to facilitate the adjustment of smaller economies.
10. Measures to facilitate smaller economies should be transparent, simple and easily applicable.
11. Countries to ensure that their laws, regulations and procedures conform to the FTAA agreement.
12. Differences in the level of development among countries to be taken into account.

whilst the three members of NAFTA will negotiate as individual countries. If Chile teams up with Mercosur, and the Dominican Republic and Panama join either with CARICOM or with the CACM, the result could be to reduce the effective number of FTAA negotiating units from 34 to seven (Table 1). Mercosur, in which Brazil is the predominant economy, is clearly the strongest of the negotiating groups, whilst the U.S.A. is the predominant economy among the NAFTA countries. After these two are a second tier of major players: Mexico, Canada, and the Andean Community. The CACM and CARICOM are clearly insignificant players in terms of population and GDP, which when combined account for only 7 percent and 1 percent respectively of the FTAA total.

To a significant extent therefore the course of the FTAA negotiations will be conditioned by the bargaining relationship between the U.S. and Mercosur, led by Brazil. Already, Brazil has signaled that the extent of its own participation in the FTAA will be conditioned by the degree to which the agreement provides access to the huge U.S. market. For its part the U.S. has had its position considerably weakened by the failure of the Administration to secure "fast track" negotiating authority from the Congress. In the absence of this authority, any agreements have to be submitted to Congress for ratification section by section, and not as a single inter-related whole as called for in principle number 5.

In this context, the FTA between Mercosur and the Andean Community will strengthen the negotiating hands of the two groups *by establishing a South American FTA in advance of the hemispheric FTA*. It provides a "second-best" alternative for these countries should the anti-free trade sentiment in the U.S.A. continue to hamper progress in the FTAA negotiations, and it raises the possibility of eventual convergence in the negotiating positions of the two

Table 1: Major Negotiating Players in the FTAA

Country/Group	Population		GDP	
	Million	% total	\$Billion	% total
U.S.A.	263.1	35.0	6952.0	76.0
Mercosur and Chile	216.1	28.7	1062.0	11.6
Canada	29.6	3.9	568.9	6.2
Mexico	90.1	12.0	250.0	2.7
Andean Community	100.5	13.4	232.6	2.5
CACM, Panama, DR	39.4	5.2	58.5	0.6
CARICOM	13.4	1.8	20.3	0.2
Smaller Economies (5+6)	52.8	7.0	78.8	0.9

groups. It would also provide a transition period for the enterprises of these countries to adjust to heightened competition before full exposure to competition from U.S. firms.

The trade agreements made by the Central American Common Market with Mercosur and the Andean Community, and with Chile and the Dominican Republic, appear to be consistent with this kind of strategy. The proposed CACM-CARICOM FTA may also be viewed in this light. Given the tremendous disparity in size between the smaller economies and the other main FTAA players, it is evidently in their interest to do their utmost to maximise their bargaining power in the negotiations, and to strengthen the capabilities of their business enterprises to respond to the challenges and opportunities arising from hemispheric trade liberalisation.

CARICOM and the FTAA

Over the course of the past 6 years CARICOM and its member states have been pursuing a two or three-track policy in relation to the hemispheric trade negotiations. Within the FTAA process itself, CARICOM allied itself with Central America and the non-anglophone states of Haiti and the Dominican Republic in the Working Group on Smaller Economies, chaired by Jamaica. The objective was to secure acceptance of the principle of special treatment for the smaller economies of Central America and the Caribbean on account of their weak competitive position. Such treatment could be a waiving of the requirement for full reciprocity in free trade, or allowing a longer period of transition for the phasing in of the free trade requirements, or some combination of both.

At the same time and outside of the FTAA process proper, the same group of countries lobbied hard for "NAFTA parity" – extending the benefits enjoyed by Mexico under NAFTA to the Caribbean Basin (CBERA) countries. In fact, the latter is of more immediate urgency than the FTAA for the countries exporting garments and textiles to the United States (Jamaica, the DR, Haiti, and others), which have been losing foreign investment and jobs to Mexican locations.

A third track – that of seeking accession to an expanded NAFTA – was of interest to some CARICOM countries in the early 1990s. This was during the time when the U.S. Administration had "fast track" negotiating authority to expand NAFTA through a series of bilateral negotiations. Hence, in 1992-1994 Jamaica and Trinidad and Tobago took steps to meet NAFTA eligibility criteria by means of bilateral treaties with the United States, and by securing a steep reduction of the CARICOM Common External Tariff.

Box 2. Smaller Economies: Report of the Independent Group of Experts

Findings

1. FTAA should recognise that smaller countries (SCs) face particular policy concerns
2. Appropriate mechanisms to facilitate SCs participation in FTAA needed
3. SCs should participate fully in FTAA
4. Small economies (SEs) must view FTAA as part of their strategic global repositioning plans
5. FTAA should be part of wider hemispheric process as set out in Miami Plan of Action
6. FTAA should be a balanced, comprehensive, single undertaking of rights and obligations. It should give special consideration to the needs of SEs regarding:
 - Phased implementation
 - Flexibility
 - Joint participation: Central American and Caribbean countries may participate as a group
7. Specific issues of particular importance to SEs are trade frictions, investment, capital flows, services, labour mobility, tourism, rules of origin, fiscal revenue, Lome Convention compatibility, technical and financial assistance for negotiations, and role of the private sector.

From: *Overcoming Obstacles and Maximizing Opportunities. A Report by the Independent Group of Experts on Smaller Economies and Western Hemispheric Integration*. August 1997, Revised Edition. (Unpub.)

The fate of the three tracks is a sobering lesson on the weak bargaining position of small countries in trade negotiations with the U.S. and the wider hemisphere. First, NAFTA membership receded into the distance, as the U.S. Congress balked at empowering the Executive Branch to negotiate bilateral expansions of the Treaty. In effect, CARICOM had made concessions on the CET and received nothing in return.

Second, the U.S. Congress also balked at supporting NAFTA parity for CBI countries, in spite of successive attempts over the years and most recently in November 1997. The simple fact is that CBI countries do not command the same political clout as the voting districts in the Congress which fear further job losses from extending NAFTA privileges to these countries. With the Cold War over, the Administration can no longer use the "communist threat" as a lever. And, as the FTAA process gathers momentum, the case for making a special arrangement for one group of countries outside of the FTAA agreement will weaken.

**Box 3. Small Economies: Conclusions of San Jose Business Forum Workshop,
March 16-18 1998**

1. Full participation of SEs in the FTAA is necessary, but the legitimate fears in some countries of the risks inherent in the FTAA should be recognised.
2. SEs are defined as the 21 countries of Central America and the Caribbean. Any other country with similar characteristics may join this group.
3. Guarantees to SEs in the FTAA process should comprise:
 - Technical assistance
 - Financial support
 - Differential treatment—the particular claims of Haiti are endorsed
 - Transparency
4. Priorities for SEs should comprise:
 - Improvement in welfare and the quality of life of population as the ultimate rationale for the FTAA
 - Strengthening of competitiveness by appropriate government/macroeconomic policies
 - Business efforts to improve competitiveness
 - Creation of a Negotiating Group on Small Economies in FTAA negotiations
 - Closer Caribbean-Central American Cooperation
5. Mechanisms of facilitation for SEs should comprise:
 - A programme of trade facilitation, including use of the Internet
 - Impact study of the socio-economic consequences and the opportunities created by FTAA for SEs, with action recommendations
 - Strategic alliances among businesses in SEs
 - Linkages of SE small and medium enterprises with the international market.

From: *ACS Bulletin*, Vol.1, No.7, March 1998

With regard to the Working Group on Smaller Economies in the FTAA process, in the final stages of preparation for the 2nd Summit the U.S. opposed acceptance of the general principle of "special treatment" for this group of countries as a separate area of negotiation. This is consistent with the drive by the developed countries to dismantle trade preferences and non-reciprocal market access for selected groups of countries, as shown in the WTO Treaty negotiations. The compromise formula, in terms of the FTAA process, is to give "special consideration to the needs" of this group of countries by means of technical and financial assistance for negotiations, and by allowing the possibility of phased implementation of particular obligations.

Box 4. Proposed Caribbean-Central American Strategic Alliance:
Summary Objectives

1. Creation of free trade area embracing CARICOM, CACM, the Dominican Republic, and Panama
2. Increased competitiveness
3. Investment promotion
4. Liberalization of air and sea transport services
5. Tourism promotion
6. Coordination of policies and strategies vis-à-vis:
 - NAFTA parity negotiations
 - FTAA negotiations
 - Cariforum-EU negotiations
 - WTO negotiations

The compromise was signaled in the report of the independent group of experts on smaller economies delivered in August 1997 (Box 3). Interestingly, the Business Forum that preceded the San Jose Ministerial Meeting took a stronger line in support of the principle of special treatment for smaller economies than the expert working group (Box 4). But by that time the die had been cast. The Ministerial Meeting confirmed the U.S. position of no separate negotiation group on smaller economies; though recognising that this group has special needs which should be taken account of in facilitating their full integration in the FTAA. A Consultative Group on Smaller Economies is charged with the responsibility to monitor the negotiations and to bring the needs of this group of countries to the attention of the Trade Negotiation Committee.

A Consultative Group is certainly better than nothing at all. But the challenges facing the smaller economies in these negotiations should by no means be underestimated. In effect, they will have to make their inputs and to monitor negotiations in all nine negotiating groups. The process will be highly technical, and the realities of bargaining power mean that these countries could easily be sidelined to the role of spectators to the negotiations among the major players. There will be no "blanket agreement" for smaller economies, for instance, on a longer period of implementation for all the provisions of the FTAA Treaty. Rather, any concessions of this kind will need to be negotiated on a case-by-case basis, under conditions of varying degrees of bargaining power.

In summary, NAFTA membership appears to be out, NAFTA parity remains elusive, and any possibility of securing special concessions for small economies within the FTAA Treaty will have to be negotiated on a case-by-

case-basis between 1998 and 2005. The agreed structure of the negotiations mean that this cause will have to be pursued through the route of "integration group" rather than that of "smaller economy group", though the Consultative Committee does give the smaller economies direct access to the TNC. It is for this reason that coordination and collaboration in the negotiations among the CACM, CARICOM, the Dominican Republic and Panama makes strategic sense, at least as a general principle.

Although the smaller economies have a relatively small share of the FTAA population and GDP, together their resources are obviously greater than that which either of the two sub-regional integration groups could command by itself, let alone any one of the 21 countries individually. Moreover there are the diplomatic and political connections that each member might contribute to such an alliance: CARICOM, for instance, has strong traditional relations with Canada, and the CACM with Mexico.

The proposed Caribbean-Central American alliance

The content of the proposed alliance is summarised in Box 4. The objectives are wide-ranging, covering (a) creation of a free trade area, (b) functional cooperation in the promotion of investment and tourism and in the liberalisation of sea and air transport services, and (c) support of external negotiations over NAFTA parity, the FTAA, and the EU-ACP relationship, and the coordination of WTO negotiations. Several observations are in order.

First, the creation of a Caribbean-Central American Free Trade Area (CCAFTA) is not only consistent with the FTAA process, but is also in line with the observed trend towards establishing inter-group FTAs in advance of the FTAA itself. The aim of strengthening the ability of the private sector to meet FTAA challenges through inter-group free trade is very clearly spelt out in the proposal, as is that of strengthening the negotiating position of the participating countries.

This is a laudable objective but, as in all schemes of this kind, some countries and enterprises will be better able to take advantage of free trade than others. The group comprises countries with widely different economic structures. It has been suggested, for instance, that the smaller countries of CARICOM in the O.E.C.S. are primarily exporters of primary agricultural exports and of services (mainly tourism), and have little to gain from a free trade area in general. Differences in levels of industrial development among countries in a free trade area can also cause frictions, a problem that both the CACM and the CARICOM have had to wrestle with. Already, Nicaraguan manufacturers have expressed concerns about the possibility of competition from manufac-

urers operating in the DR's industrial free zone, when the CACM-Dominican Republic FTA comes into effect.

Second, it seems significant that the Dominican Republic is proposing to promote Caribbean-CACM free trade and functional cooperation *outside of the framework of the Association of Caribbean States*. The ACS's work programme is centred on cooperation in trade, transport and tourism. On the face of it the Strategic Alliance will duplicate the work of the ACS.

The reasons for this almost certainly have to do with complications arising out of the membership of the "G3" countries, and of Cuba, in the ACS. Mexico, a NAFTA, member, will be negotiating individually in the FTAA, while Colombia and Venezuela may negotiate as members of the Andean Community. Cuba so far has not been in the FTAA process, because of the US embargo, (though as we point out below this may well change before the negotiations are over).

By restricting itself to the members of CARICOM and the CACM plus two of the three "non-affiliated" members, the proposed alliance recognises the growing significance of integration groups in trade negotiations. Evidently it offers a more secure place in the FTAA negotiations for the Dominican Republic itself and for Panama, which would otherwise be in danger of being marginalised.

Third, the proposal indicates that NAFTA parity is still very much on the agenda as far as the Caribbean Basin countries are concerned. The NAFTA push is mentioned twice in the document and is the first area of external policy that is targeted for coordination among the members. While the document refers to NAFTA parity as "an intermediate step towards the FTAA", the real attractiveness of this arrangement is that it would provide non-reciprocal access to the US market equivalent to that of Mexico in other respects. Whether Caribbean Basin countries can command the kind of support in the US Administration and Congress to ensure passage of such a measure, in the post-Cold War setting, remains to be seen.

A final observation relates to the objective of mobilising support for Cariforum countries in their efforts to preserve existing Lome IV benefits with the EU. This appears to overlook the difficulties this would pose for the Central America countries. The EU banana regime has already pitted banana exporters from Cariforum and from Central America against one another. It is likely that this will continue; as the Central and South American exporting countries are supporting the U.S.A. in rejecting the European Commissions' proposed modifications to the marketing regime.

At the same time, the EU is in dialogue with Central America on trade and development cooperation, including extending trade preferences to agricultural products. It is difficult to envisage a situation in which the Central American

countries acquiesce to, let alone give active support to, the preservation of EU trade privileges for one set of developing countries over another.

Further, it is not clear whether this objective in the proposal from the Dominican Republic takes into account the radical restructuring of the Lome arrangements presently envisaged by the EU, a question we take up next.

The EU-ACP relationship

Last February the EU Commission published the negotiating guidelines it is recommending to the EU Council and Parliament on new cooperation agreements with the ACP group of countries when Lome IV expires in the year 2000. The recommendations would, if implemented, represent a fundamental departure from the current Lome arrangements insofar as these have been characterised by a single agreement with all the ACP countries, whose terms are limited to development aid and one-way trade preferences. This would be replaced by up to six regional and sub-regional "free trade area" type agreements with groups of ACP countries providing for the phasing out of the trade preferences, which would in principle be retained only for the poorest countries, the majority in sub-Saharan Africa. A strong element of political conditionality would also be introduced into the EU-ACP relationship (see Box 5). The new agreements would come into effect in 2005.

These proposals have thrown the Cariforum countries and indeed the entire ACP group into a tailspin because of the radical changes envisaged and the limited time frame within which to organise a coherent response. The EU-ACP Ministerial Council is to meet in early May, the recommendations will go to the EU Council for ratification in June, and the formal negotiations will commence in September. At this time it appears likely that the ACP will go into the formal negotiations in a badly divided state, and that the EU will succeed in breaking up the ACP as a single negotiating force in trade negotiations.

From the perspective of Caribbean trade relations there are several immediate points of interest in the Commission proposals. First, the one-way trade preferences with the EU will probably expire in 2005, and they will last until then only if the WTO grants the EU request for an extension to that year. After 2005, only Haiti is likely to benefit from one-way preferences as of right. The possibility of negotiating a phased introduction of free trade with the EU remains open. One wonders if the coincidence of the period of negotiations for the EU-ACP free trade agreements with those for the FTAA, is really a coincidence at all. In any case, the demands of the two sets of negotiations are certain to impose considerable pressures on the scarce technical negotiating resources of the small countries of the region.

Box 5. The successor to Lome IV: a scenario

The European Commission has published its recommendations to the EU Council and Parliament on guidelines for the negotiation of new cooperation agreements with the African, Caribbean and Pacific (ACP) countries. They amount to a fundamental departure from the essential features of the present and past Lome Conventions: a single agreement with the entire group, covering development aid and non-reciprocal trade preferences. Among the significant proposals for the new arrangements are:-

- Introducing strong *political conditionalities* into the relationship, relating to human rights, representative democracy, the rule of law and good governance.
- Focusing on *poverty alleviation* by supporting the spread of markets, the strengthening of private enterprise, the emergence of active and organised civil society, the enhanced participation of women in economic and social life, and regional integration and cooperation.
- Substituting global ACP non-reciprocal trade preferences with up to *six regional and sub-regional "economic partnership" agreements* with Africa (4), the Caribbean and the Pacific. Initially these will provide for varying degrees of reciprocity, but eventually they will be phased into *free trade areas with the EU*. In principle, one-way trade preferences will be retained only for the poorest developing countries ("L.L.DCs"), which will include non-ACP members.
- A 7-year implementation schedule as follows:
 - The EU will seek WTO permission to maintain the current Lome arrangements in place until 2005
 - September 1998-2000: the EU and the ACP negotiate an umbrella agreement establishing the basic principles of the new relationship.
 - 21 01-2003: the EU negotiates regional and sub-regional agreements with specific groups and individual countries within the ACP providing, inter-alia, for the phasing out of one-way trade preferences.
 - 2005: new agreements come into effect.

So far the ACP Group has not had the time or opportunity to formulate a response. The ACP-EU Ministerial Council Meeting to discuss the proposals will be held in Barbados May 5-6. The recommendations go to the EU Council at its meeting in June. Formal negotiations on the successor to the Lome Convention, which expires in March 2000, are scheduled to comment in September 1998.

Sources: *Policy guidelines for future EU-ACP relations*. David Jessop, "Towards Post-Lome", March 1, 1998

Second, the Commission's proposals place heavy emphasis on regional free trade and integration within the groups with which the EU will make "sub-regional" agreements. In effect, Cariforum countries will not only be negotiating en bloc, but will be expected to strengthen their own free trade and integration efforts to make better use of the new agreement with the EU.

Third, the admission of Cuba to the ACP Group for the upcoming negotiations must now be regarded as a serious possibility. Cuba has now applied formally and this has received the endorsement of the Cariforum countries, and is known to have strong support with some EU countries. How this impacts on the rest of the Caribbean very much depends on how pro-actively the Cariforum countries take advantage of the opportunities that Cuban accession presents for strengthening the negotiating position of the group. For instance, Cuba may need support from the rest of the group in resisting political conditionalities, whilst the whole group have a common interest in negotiating a period of transition that permits an orderly adjustment to conditions of two-way free trade.

Finally, it may be observed that the demands of the EU negotiating process must represent a considerable distraction from those of the FTAA process in recent months, and this problem is likely to get more acute. In the case of CARICOM, member states have also been preoccupied with the implications the WTO ruling on bananas, with the process of amending the Treaty of Chaguaramas, with organising a relief effort in Montserrat, and with helping to resolve the post-election dispute in Guyana. The Regional Negotiating Machinery, set up to coordinate external negotiations, is still short of money to finance its activities, and has applied for an IDB loan for this purpose. All this indicates the pressures on relatively small countries with limited resources of technical personnel, arising out of the rapid changes in world trading arrangements.

The CARICOM Single Market and Economy

At the recent intersessional meeting of CARICOM heads in Grenada, the Jamaican Prime Minister expressed the view that the Community should complete the process of establishing the Single Market and Economy before pursuing integration arrangements with other countries or groups. The analysis in this paper suggests that it does indeed make good strategic sense to consolidate a strong Community as a platform for the FTAA and for EU-ACP negotiations. This has the added advantage of establishing the basic terms on which new members of the Community are admitted. Besides Haiti, these could include the Dominican Republic and Cuba.

Box 6. Status of the CARICOM Single Market and Economy *Target year for establishment. 1999*

Protocol	Subject	Status March 1998
I	Organs and Institutions of Governance	Already provisionally applied
II	Provision of services, rights of establishment and movement of capital	Requires two more signatures for provisional application
III	Industrial Policy	To be ready for signature July 1998
IV	Trade Policy	To be ready for signature July 1998
V	Agricultural Policy	To be ready for signature July 1998
VI	Disadvantaged Countries, Regions and Sectors	To be ready for signature July 1998
VII	Transportation Policy	To be ready for signature July 1998
VIII	Competition policy	To be ready for signature early 1999
IX	Disputes settlement	To be ready for signature early 1999
<i>Note:</i> Application of a Protocol requires signature and ratification by a majority of member governments. Establishment of Single Market and Economy requires that all nine Protocols be applied.		

On the other hand, the pace and sequencing of the FTAA and the EU-ACP processes call into question the viability of waiting until the CSME process is completed before new free trade agreements are contemplated, such as the possible Caribbean-Central American Free Trade Area. One problem is that the legal process of establishing the CSME is cumbersome and long drawn out. The Treaty of Chaguaramas is being amended by means of the adoption of nine different protocols. Each protocol has to go through a technical and Ministerial Committee to the Heads of Government for approval. It then has

to be ratified by the signatory governments, and then implemented by means of legislation or administrative law. So far only Protocol I has passed through all the stages required for provisional application. The status of the other eight is shown in Box 6.

Given CARICOM's recent performance on this matter, the prospects for having all 9 protocols approved, signed and ratified by the end of 1999 to bring the Single Market and Economy into effect during that year appear to be dim. There needs to be a considerable increase in the pace and the urgency with which the member Governments regard this process, one that is informed by the far-reaching implications of the FTAA and EU-ACP scenario.

The Position of Cuba

There is now a real possibility that Cuba will soon be an active player in Caribbean and hemispheric trade negotiations. Since the beginning of the 1998 there have been steps towards relaxation of the US trade embargo, and some signs that the gradual lifting of the embargo may be in sight. For instance, representatives of some 50 American firms recently met with Cuban Government officials in Cancun; and the US Chamber of Commerce has now gone on record as calling for the lifting of the embargo. Pressure on the US Administration is also building up from the other FTAA players. Several countries deplored Cuba's absence from the Santiago Summit, Prime Minister Arthur of Barbados being particularly outspoken on this issue. Prime Minister Chretien of Canada visited Cuba immediately after the Summit; and several Latin American nations abstained for the first time from a US-sponsored resolution condemning human rights violations in Cuba.

Cuban membership of CARICOM is now being actively mooted. Prime Minister Douglas of St Kitts and Nevis spoke openly about the possibility on a recent visit to Havana; and the US is reportedly offering no opposition to such a move. Cuba has now formally applied for membership of the ACP, with the support of Cariforum countries. It has re-established diplomatic relations with Spain, which may support its ACP application. Diplomatic relations have also been re-established with the Dominican Republic after a break of 39 years. The likelihood is increasing that Cuba will be at the FTAA negotiating table long before the negotiations formally conclude in 2005.

This raises intriguing questions about the form of future Cuban relations with integration areas in the Caribbean and Central America. Several observations are in order here. First, if Cuba accedes to the ACP it will almost certainly do so as part of the Cariforum countries. In this case, the question of a CARICOM-Dominican Republic-Cuba Free Trade Area will certainly be on the agenda.

Secondly, if and when Cuba is admitted to the FTAA negotiations, the possibility of becoming a member of the Consultative Committee on Smaller Economies will be open to that country, as well as that of becoming a member of a Caribbean-Central America strategic alliance.

Third, in such a scenario, the question will arise as to whether Cuba will seek formal association with a sub-regional grouping, and if so, whether this will be with CARICOM or with the Central American Integration System (SICA). In the recent past Cuba has had warmer relations with CARICOM than with Central America, primarily for political reasons. However this has been changing with the end of the Cold War and of the Civil Wars in Central America. For instance, the Cuban Foreign Minister recently spoke by invitation to the Central American Parliament, where he was warmly welcomed. The Central American airline, TACA, recently announced the commencement of services to Cuba and the Dominican Republic.

Clearly there will be the attractions of linguistic affinity and to some extent of cultural similarity, as well of geographical proximity, pulling Cuba towards Central America. But Cuba also has strong cultural and political ties with the Caribbean that were cemented during the decades of its isolation from the rest of the hemisphere.

For CARICOM, the question will be whether the Community will be willing and able to make an historic transition from being primarily English-speaking and with a predominantly Afro-and Indo-Caribbean ethnic and cultural identity, to one that is majority French and Spanish speaking in population, with a strong Hispanic cultural element. Here, a long-term proactive vision is called for. With Cuban membership, CARICOM would command considerably more economic and political clout. This might also make CARICOM membership more attractive to the Dominican Republic, which has been drawing more closely to Central America in recent times. Without Cuban membership, CARICOM will remain a relatively insignificant player in hemispheric economic and political affairs. And we know that the world has become a very inhospitable place for small countries.

Conclusion

What can one say, by way of conclusion, about the prospects for a Caribbean-Central American Alliance and the implications of the FTAA process? At least five points may be highlighted from the developments reviewed here.

One is that in both the FTAA and the EU-ACP processes, the Caribbean is being treated as a group and not as individual entities. In other words, *whether we want it or not, whether we like it or not, we will have to negotiate as*

a united community and as a united region. In addition, as the pace and complexity of negotiations are growing almost exponentially (and we have not here discussed the WTO), the need to make best use of scarce technical resources compels us to negotiate as a single entity.

Second, consolidating our internal integration arrangements is not an *alternative* to collaboration in external trade negotiations, but an indispensable *complement* to it. Hence the CARICOM Single Market and Economy, far from being rendered irrelevant by hemispheric trade liberalisation, has become a strategic necessity for participating in international trade negotiations from a position of greater strength.

Third, the proposal for a Strategic Alliance points us in a direction beyond CARICOM to Cariforum, and beyond Cariforum to Central America. Given the direction of both the FTAA and the EU processes, it makes strategic sense to forge closer links with the Central American countries, building contact and trust in a solid manner over time.

Fourth, the conflicting interests of countries within such a grouping need to be taken into account, as they represent potential sources of tension and conflict that can undermine the cohesiveness of the group. Two such potential points of conflict are the banana question with the EU, and the possibility that the more industrially developed countries will be in a position to reap greater benefits from a free trade arrangement, than the smaller states and service-oriented economies. These issues will need to be handled with care, in order to ensure that an alliance of this kind does not break up prematurely.

Finally, however the scenario unfolds, we are being pushed inexorably into closer trade relations and governmental collaboration with our Spanish-speaking neighbours. Governments, businesses and civil society will need to wake up to this reality, forging new relationships and alliances with their counterparts in these countries if we are to participate proactively, and to our benefit, in the wider processes of hemispheric integration.

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The Island Caribbean in the Dynamics of Hemispheric Integration

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Introduction

This paper will analyze the hemispheric integration process from the Island Caribbean perspective as outlined by the CDCC and the statutes of the Association of Caribbean Economists. That is to say, we are referring to the 16 independent countries (13 islands and 3 continental countries) along with the French Departments, the British, Dutch and United States territories.

They are all members of the Association of Caribbean States ACS, (See Table 1 of the Annex) which includes the Central American and G-3 countries, which bring the total to 25 States. Therefore, from here onwards when I refer to the Islands or to the Island Caribbean, I will be referring to the first group, and when I use the term Caribbean or Wider Caribbean, I will be referring to the second group which includes the 25 signatories to the Convention Establishing the ACS and the Dependent Territories which are eligible for Associate Membership in the ACS. (See Tables 1 and 2).

In the second instance, I wish to state that this paper is a mixture of facts, appraisals, intuitions and reflections which, in my judgement, should be the path to be followed by the Island Caribbean in the hemispheric game. It is a personally voiced opinion at this academic and intellectual forum, which we have defined and created, that is the Association of Caribbean Economists.

In the third instance, upon reflection on the theme of this Fifth Conference of Caribbean Economists²: "Constructing Bridges", a thought and a self-criti-

cism come to mind. I want to share it with you, and take advantage of this gathering of outstanding economists.

As a true islander, I do not have the slightest doubt that the globalization and liberalization processes are having a disastrous effect on the Island Caribbean. This is not only due to the novelty and diversity of issues and agendas, but to the speed of the process. Generally, (with the exception of the political will expressed in Cuba by the island's intellectual elites and the work of NGOs) the political and social dynamics have lacked dynamism and hemispheric appeal up to recent times, since there was a deliberate policy of isolation for decades (the case of the Dominican Republic and Haiti) or because the language and culture were "different" (the case of the English-speaking Caribbean) or because political circumstances imposed isolation (the case of Cuba). This situation should be remedied.

It is just recently that the creation of fora such as CARIFORUM³, reflections such as "Time for Action" (Report of the West Indian Commission, 1992), the establishment of the Association of Caribbean States, the work of some NGOs (in subjects such as gender, social movement, education for the masses, professionals and businessmen among others) constructed bridges between the islands and began to identify the reciprocal need for articulating positions and identifying potential allies between the Continent and the islands, and among the islands themselves.

This process still meets with a lot resistance, trouble and concern among the actors who should break the shell of isolation, due to the difficulties of language, communication problems, parochialism and provincialism which impregnate the political culture of the countries of the region. Whatever the reason, it is undoubtable that this political culture can be maintained if we want to be actors with a certain management capacity in the insertion process. The Island Caribbean will be the simple objective, subjugated by the circumstances and incapable of articulating a more or less coherent response.

Due to these reasons, the analysis of the Island Caribbean's strategy in the integration process should deal with a dialectic process: Islands, Caribbean Basin, Hemisphere, without ignoring that there are difficulties and differences between the early ones who began to find responses in fora such as CARIFORUM, in the widening of CARICOM with the admission of Haiti and Suriname, and in the Association of Caribbean States.

The Hemispheric Process

Ministers of Trade met in Belo Horizonte in May 1997 and proposed that multilateral negotiations for the establishment of the Free Trade Agreement

Table 1: FTAA Working Groups

Group	Country
Market access (1)	El Salvador
Customs procedures and technical standards (1)	Bolivia
Investment (1)	Costa Rica
Standards and technical barriers to trade (1)	Canada
Sanitary and phytosanitary measures (1)	Mexico
Subsidies, antidumping, compensatory laws (1)	Argentina
Small economies (1)	Jamaica
Public sector purchases (2)	United States
Intellectual property rights (2)	Honduras
Services (2)	Chile
Competition (2)	Peru
Controversy solution (3)	Uruguay

(1) Established in Denver
 (2) Established in Cartagena
 (3) Established in Belo Horizonte

of the Americas (FTAA) begin at the Second Summit of the Americas to be held in April 1998 in Santiago de Chile. This announcement came as a result of a process initiated at the Summit of the Americas in Miami (9-11 December 1994)⁴ and continued with several Ministerial and Vice-Ministerial Meetings and Business Fora for each of the FTAA Working Groups.

During this process, 12 Working Groups were created, (7 of which were established in Denver, 4 in Cartagena and 1 in Belo Horizonte) with the aim of commencing negotiations, gathering information and organizing subjects for discussion. Of these 12 groups, 7 or 8 will be converted into negotiating groups while the group on small economies will act as adviser to the other groups, although there are some countries of the hemisphere which plead for their elimination.

A set of "areas of convergence" arose as a result of the Belo Horizonte Meeting during 13-15 May, 1997 (Belo Horizonte Declaration, May 1997)⁵ which established the following:

1. "Consensus constitutes the fundamental principle for decision-making", That is to say, the 34 countries should be in agreement with any decision.

2. "The results of negotiations will constitute a single undertaking which incorporates rights and obligations which may be mutually agreed on". This means that *nothing should be negotiated unless there is agreement by all parties*. It states further on that "... The FTAA can co-exist with bilateral and sub-regional agreements, since the rights and responsibilities under such agreements may not be covered or exceed the FTAA rights and obligations". In other words, *the FTAA shall be subordinated to any other regional or sub-regional agreement*.
3. A third element established in the Belo Horizonte meeting is that "*countries can negotiate and adhere to the FTAA individually or as members of a sub-regional integration grouping which may negotiate as one unit*". This means that a forum is created for countries, in order that they can act as a group.
4. It has been established that special *attention* should be paid to the needs, economic conditions and opportunities of the *smallest economies*, in order to ensure their full participation in the FTAA process".
5. In addition to the previous points, it was agreed that the FTAA will be congruent with WTO agreements, that is to say, the second will be the minimum legal framework by which the first will operate. The need to create an administrative Secretariat before negotiations are concluded in 2005, was established.

During the Meeting of the Vice-Ministers of Trade in October, 1997 in Costa Rica, it was evident that there were few advances. However, the main conclusions should be presented to the Ministerial Meeting in March 1998. Moreover, what was remarkable was the heightening of the tension between MERCOSUR and the United States in several areas, among which the North American proposal to establish parallel consultative groups in the fields of the environment and labor, stands out. MERCOSUR and Chile openly rejected this. This United States initiative was included within its plan to convert the present 12 Working Groups into nine negotiating tables from April 1998. (A summary of the United States proposal can be found in *Americas Trade* 4 November, 1997).

Apart from labor and environmental issues, some discrepancies related to the terms for eliminating tariffs or taxes on the circulation of products in the continent, as well as in the manner for negotiating agriculture and subsidies remained quite clear. Another issue was that of graduation which was raised by MERCOSUR, which maintains that the lowering of taxes cannot begin at the same time for all products, because many industries are still not prepared for the change, and, in some cases, they would need a longer term than the stipulated 10 years, while the United States is of the opinion that the lowering of taxes should begin simultaneously for all products.

The issue of the structure of negotiations is pending for discussion at the Third Vice-Ministerial Meeting in January 1998, while the final trends of these negotiations will be discussed by Ministers at the Meeting in March 1998 in Costa Rica. (See newspaper (*La Nación*), Costa Rica. Friday 31 October, 1997. Digital edition on the INTERNET).

Some Factors which influence the Advancement of the FTAA

Two phenomena are occurring simultaneously in the hemisphere: at the time of the advancement of hemispheric work, regional and sub-regional agreements are taking root. This form of advancement was termed Open Regionalism by ECLAC, thereby establishing a distinction between actual integration (that which results from the inflow of a set of policies which have had the creation of trade flows and investment as an effect) and that which is fostered by policies and agreements. According to ECLAC, Open Regionalism conciliates "interdependence arising from special and preferential agreements and those fostered basically by market signals resulting from trade liberalization in general". (ECLAC 1994 and 1996a)

The following question is relevant in this respect: what is happening with integration processes in the region? The response to this question demands the identification of some characteristics which may serve as the framework for the FTAA process.

1. Partners. Who are partners in Latin America? According to Table 3 of the Annex, the following is outlined: in the Southern Cone countries, that is to say, from Ecuador southwards, the most important partners are ALADI countries or the European Union, while the United States is a partner from the 2nd to the 4th level. For Ecuador, Colombia, Venezuela, Mexico, Central America and the CARICOM countries, the main trading partner is the United States of America.

This difference in relation to the United States of America can establish that the speed and the need to arrive at hemispheric agreement may be different, since actual integration between countries of South America progresses at greater speeds than with the rest of the hemisphere.

In Argentina, the US receives only 8% of exports and the ALADI countries receive 46.6%. In Brazil, 19.5% of total exports goes to the United States and 26.9% is destined for the European Union. In Uruguay and Paraguay the ALADI countries receive 59.9% and 63.9% respectively whilst the US accounts for only 6.0% and 3.0% respectively. In the case of Chile and Peru, the

main trade partner is the European Union (24.4% and 26.7%) whilst the United States receives 15.4% and 19.9% of exports respectively. In Bolivia, the main market for exports is the ALADI countries (935.1%) and the US receives 27.8% of exports.

2. Trade trends. There are 10 Trade agreements among ALADI⁶ countries (G-3, Andean Group, MERCOSUR, Mexico-Chile, Colombia-Chile, Venezuela-Chile, Ecuador-Chile, MERCOSUR-Bolivia, MERCOSUR-Chile, Mexico-Bolivia). Additionally, negotiations are underway between Ecuador and Mexico, Chile and Peru, and MERCOSUR and the Andean Group. What will happen if only the 10 intra-ALADI Agreements are signed "... in 2004 75% of intra-ALADI trade will be free of restrictions and by 2007 it will reach 78%". Moreover if these negotiations are underway it will result in intra-ALADI negotiated trade exceeding 58% in 1994 to almost 100% in 2000 and more so 90% of the total trade of ALADI countries will be liberalized". (Antunés 197, pg. 4)

These figures explain why much is frequently heard of an FTAA without the United States of America or the establishment of a South American Free Trade Agreement (SATFA), at many academic fora in South America.

Another important element in trade between countries of the south is that this moved from 17% in 1991 to 26% in 1995 (including Mexico, these proportions moved from 11.9% in 1991 to 17% in 1995). In other words, intra-ALADI trade in the countries of the south are as important as trade between the USA and the EU. (Antunés 1997).

3. The SAFTA. In February 1994 during the Eighth Meeting of Ministers of ALADI, the Foreign Affairs Minister of Brazil formally presented a proposal for the establishment of a Free Trade Area of South America (SAFTA) which had been previously submitted by this Brazil's President, to the Seventh Meeting of the Rio Group, held in Santiago. Its objective would be to integrate ALADI Member Countries into a Free Trade Area over a ten years period (1995-2005), while agreements on programs for the linear, automatic and progressive lowering of taxes which would include a substantial 80% of the trade, would be signed. "According to the Brazilian concept, the lowering of taxes can occur during a term and with different pace, consonant with the level of development and exchange peculiarities of the countries involved. It would complement agreements, norms for safeguarding clauses, controversy solution and other essential issues, based on ALADI standards in force. Subsequent information stated that the Government of Brazil should submit the SAFTA initiative to MERCOSUR. In accordance with this concept, the project is basically aimed at the extension of the MERCOSUR trade liberalization

scheme to other sub-regional pacts such as the Andean Pact and to eventual individual partners such as Chile". (ECLAC 1995, pg.15).

Although this plan has never been formally adopted, it is evident that it is being consolidated in Brazil's leadership⁷ through the expansion of MERCOSUR via agreements with Chile and Bolivia (Free Trade) and with negotiations initiated this year with the Andean Community, which will in fact be creating economic space for all of South America.

The discussion on the question of how far Brazil has renounced this proposal remains open or it is part of its "hidden agenda", with the hope that the facts themselves will be imposed. If this is the strategy, how will the FTAA negotiations result and for how long will they be delayed, or up to what point will it be necessary to consolidate the SAFTA or the Brazilian project, so that the remainder of the negotiations may proceed?

There is also need to ask whether Argentina shares this vision with Brazil or if this country feels more inclined to give the United States of America more relevance without leaving MERCOSUR. In any event, it should be asked what shall be the Caribbean strategy (in the wider sense) or that of the islands, in light of the negotiation process and these real and potential differences between the United States and MERCOSUR.

In this context, but on the other hand, there is need to analyze the fast track approach⁸ as outlined by President Clinton (10 November, 1997), which will place the United States in a weaker position. This new situation favors countries of the south, which have more time for consolidating themselves into a bloc. In turn, it gives other countries such as the Dominican Republic, some CARICOM and the Central American countries, the possibility to move the balance of internal confrontations between two integration strategies: one which gives precedence to horizontal integration (with countries of the region) but in stages, and the other which gives precedence to vertical and immediate integration (directly with the U.S.A).

4. Small Economies. The group of small economies will lose its status during the FTAA negotiations. In spite of the fact that in the Belo Horizonte Declaration there is explicit reference to the need to safeguard this issue, the reality is that the larger countries in the hemisphere are even more disposed to recognizing special treatment for small economies. In fact during discussions, some countries outlined the disappearance of this group and others were disposed only to offering nothing more than certain types of technical assistance. All indications indicate that the FTAA process could limit itself to the following aspects in these economies:

- (a) Differential treatment which may recognize a greater transition period.

- (b) Temporary exceptions, that is to say, the possibility that they can be temporarily exempted, and in special cases, from temporary responsibilities.
- (c) Technical assistance in human resources, institutional aspects and other issues.
- (d) Special treatment for Working Groups, according to the subject.

Over the last two years, various important studies on small economies have been undertaken by the OAS, ECLAC and the IDB. These studies have characterized themselves by breaking down into separate components the analysis of a set of variables and sectors in which it is difficult to establish a conclusion, since it can result in a small economy having a high GDP per capita or a high human development index, or a "large" country having a relatively "small" sector in relation to the size of the same sector of a "small" country. For example, Colombia can be a dwarf in the area of tourism and Antigua and Barbuda a giant.) This relation to the issue does not capture what in my judgement is the essential element in the analysis of the issue of small economies: their adaptability to change, and their vulnerability. Vulnerability would include issues such as the limited institutional, productive and social capacity to adapt to the new international scenario.

For example, vulnerability can be visualized by means of two facts. One is not economic, but a permanent threat and that extraordinarily affects economic development: this relates to natural disasters and the second deals with the extreme vulnerability of the economic structure.

It is possible that no country in the hemisphere is so exposed, vulnerable and insecure more than in the Island Caribbean, where a hurricane can destroy an entire island. We can simply recall that the diameter of hurricane Luis in 1996 was 500km, or equivalent to an extension greater than the Dominican Republic from north to south.⁹

Another interesting example which can give an idea of the vulnerability of the Island Caribbean is the bananas issue in the Windward Islands. After the judgement and appeal to the WTO, three economies are seriously threatened: Dominica, where the banana industry represented 16.4% of the GDP and 36.5% of total exports in 1996; St Lucia, where this industry represent 4.8% of the GDP and 41.4% of exports and St Vincent and the Grenadines, where it reached 3.2% of the GDP and 26.1% of total exports. In none of the countries of the hemisphere did, the banana problem or no any other agricultural product reach these relatively high propositions.

Therefore, my conclusion is that the methodologies for dealing with the issue are not adequate because they make comparisons of static variables and do not capture the phenomenon in its dynamic perspective There is need to

advance in this line of work if the phenomenon of vulnerability of the small economies of the Caribbean is to be recognized.

5. Tourism and services. Another issue in the Island Caribbean to which attention is drawn, is the orientation of its economies. With the exception of Trinidad and Tobago, Suriname and Guyana, the most important economic activity is the export of services, mainly tourism, which is by far superior to the export of goods. There are countries where this ratio is about 9.42 to 1 as is the case in The Bahamas, 6.54 to 1 in Antigua and Barbuda, 3.79 to 1 in Grenada, 3.72 in Barbados, 3.06 to 1 in the Dominican Republic (when the net of the duty-free zones for services is registered) and so on. In at least 9 of 16 countries, the export of services is superior to the export of goods. This does not occur in the rest of the continent where the ratio is the opposite.

Additionally, with the exception of Cuba, these activities are completely liberalized. The private sector has complete control of the supply as well as demand. The following questions should then be asked: what does the FTAA have to offer these economies? Why the hurry for a hemispheric agreement? Is this the reason for the FTAA arousing such little interest in these countries? There is need to advance hemispheric negotiations on these issues in order to proceed.

6. Structural reforms and services. Structural reforms for liberalization began during the second half of the decade of the eighties in Latin American and Caribbean countries (although there were countries such as Chile which began in the seventies) with the objective of restructuring and increasing foreign currency income. These reforms are a pre-condition for the development of export activity. The ratio between structural reform (lowering of tariffs, elimination of non-tariff barriers, etc) merits more thought when it relates to service oriented economies.

In the Dominican Republic in the eighties, the economy has undoubtedly recorded greater structural transformation in the productive apparatus where income from the export of goods and services multiplied by 3 over a 15 year period and completed dismantled the sugar industry which had been the axis of the economy over the last 15 years. This restructuring of foreign currency income was made without structural liberalization reform.

In the Dominican Republic in the seventies, we see that sugar represented between 60-70% of total exports and the total amount of the export of goods and services reached one billion dollars. At the beginning of the nineties, sugar represented less than 3-4% of foreign currency income and the export of goods and services surpassed two billion. In 1995, foreign currency income from the export of non-factorial goods and services reached 5.5 billion dollars (if we take

Table 2: Ratio of Export of Services/Goods and Tariff Income to Total Income and GDP

	Export. Services/ Goods	Tariff Income/ Total Income	Tariff Income/ GDP	Fiscal information year
St. Lucia	2.36	55.1	14.3	1991
Bahamas	9.42	50.6	9.5	1994
Belize	0.73	37.2	9.1	
Dom. Republic	3.06	30.8	5.6	
St. Kitts	0.73	29.2	5.9	
Barbados	3.72	23.5	6.8	1990
Antigua	6.54	22.0	4.9	
Grenada	3.79	21.6	5.3	
Jamaica	0.77	20.7	6.4	1993
Nicaragua	0.22	20.7	4.8	
Honduras	0.19	20.5	5.4	1990-92
Colombia	0.33	20.5	3.4	1994
Dominica	1.26	20.1	5.6	
Guatemala	0.31	19.8	1.8	
St. Vincent	1.23	17.7	4.6	1990
El Salvador	0.23	17.0	1.6	1992
Haiti	0.95	15.2	1.7	1991
Costa Rica	0.53	15.0	3.9	
Guyana	0.27	11.6	4.6	1990
Venezuela	0.08	10.5	1.9	
Panama	0.23	9.8	3.1	1992
Trinidad	0.14	7.7	2.1	1989
Mexico	0.13	6.2	1.1	1991
Cuba	1.08			
Suriname	0.17			

Source: Association of Caribbean States Data Base and the OAS. Small and relatively less developed economies and hemispheric integration. 1996, Table 7.

the income of duty-free zones into consideration) or 3.5 billion dollars (if we take the net total of the duty-free zones into account). The reason for this increase was the development of the tourism sector which reached a total of 1.8 billion dollars in 1996 from the development of the duty free zones (US\$3.0 billion exported), when in 1980, these sectors were practically insignificant. The interesting factor is that the liberalization reforms were introduced into the economy of the Dominican Republic at the beginning of the

nineties, that is to say, 10 years after re-structuring of foreign currency income, and 7 years of discussion had been initiated and consolidated, although a lot of this had not been completed or was still under discussion. (Ceara-Hatton 1996).

In addition, tariff reform had not been completed. This maintained a maximum tariff of 35%. If customs had improved, it is still a far way off from the situation described in the Customs Reform Proposal.

The question to be asked here is: what sense is there in the liberalization process as Mexico and Colombia for example followed it (WTO 1996), whereby there have been very high social costs to be paid if the economies are oriented basically to the exports of services (tourism)? I should confess that I still have no definite position on this issue.

7. Reciprocity. Another important and relevant issue to the region is that of reciprocity. Firstly, the Island Caribbean has enjoyed unilateral access regimes to markets as is in case of Lomé, CBI, Caribbean, the Venezuela-CARICOM, and Colombia-CARICOM Agreements. What has been the result? Generally, the export of goods and services has not increased substantially because problems related to exportation and the creation of competitiveness are much more complex than tariff problems.

Secondly, if CARIFORUM countries give reciprocity to the United States of America and Canada, then they will have to do the same with the European Union and lose the concessions that the latter may offer.

8. Fiscal income. The reduction of tariffs can be converted into a serious fiscal problem for the majority of economies of the islands. As shown in Table 2 and the annexed graph, there is a high co-relation between the countries which have a relatively high level of tourism development and the amount of tariffs in fiscal income.

9. The new integrationist culture. The subject of regionalization has had even more force along with the globalization process, due to the proliferation of trade agreements, which create a severe problem of harmonization. Apart from this, the point highlighted is that the majority of countries of the continent are distributing their "integrationist eggs into several baskets simultaneously". A lot of progress needs to be made on this issue in the Island Caribbean, by looking exclusively at the United States of America (more recently efforts were concentrated on the Parity Law which seems more remote every day) or towards the European Union.

All the countries of the region are working towards the establishment of the FTAA. However, the process is long and complicated. We have a hemispheric

game which converts itself into a confrontation between the two large countries the USA on the one hand, and Brazil on the other. In turn, both expand their commercial and economic links, one through NAFTA, the other through MERCOSUR, within the framework of a generalized strategy in the continent, whereby countries try to consolidate regional foro, as well as sign as many trade agreements as possible, in order to increase their capacity for negotiation in the FTAA and increase their economic capability before 2005.

MERCOSUR is being rapidly consolidated. In 1996, it exported 21.5% to the Customs Union. By the year 2000, these countries hope to have a Free Trade Zone without exceptions and to achieve the total Common External Tariff for third countries by the year 2006. Additionally, agreement was reached with Chile (25 June, 1996) to conclude a Free Trade Area within a 10 year term before 2005 and another "4+1" type agreement with Bolivia (in June 1996). It also intends to initiate negotiation with the Andean Community.

The Andean Community has been converted from the Cartagena Agreement into the Community, with the very clear objective of creating a Common Market (Trujillo Protocol of March 1996 and the Sucre Act of April 23, 1997), reincorporating Peru in July 1997 and simultaneously announcing the beginning of negotiations with Central America and CARICOM.

The Central Americans have made advances with internal restructuring. SICA has become the umbrella organization for 25 regional institutions (specialized and ad-hoc secretariats) of the Central American Integration System. In fact, after the Declaration of the Presidents on the 12 July 1997, all the regional secretariats were relocated to San Salvador. The framework for a Free Trade Agreement with Panama was established on this very date. Of course, efforts for a Free Trade Agreement with Mexico, Colombia and Venezuela are under way on the other hand. Since 1985, the Mexico-Costa Rica Free Trade Agreement has been in force. During September, the agreement with Nicaragua was concluded and it is expected that an agreement with the Northern Triangle will be concluded over the next few months.

CARICOM on the other hand has been immersed in institutional transformation with the introduction of 9 Protocols all directed at the modification of its internal structure and establishing a legal framework for the Single Market and Economy. At the time of its widening with the incorporation of Suriname and Haiti, it sought closer ties with other countries of the hemisphere especially the Central America countries, the Dominican Republic and Cuba.

Meanwhile, Panama participate as an observer in the Andean Group and Cuba has several Free Trade Agreements with South American countries (Argentina, Bolivia, Brazil, Ecuador, Peru and Uruguay).

The Dominican Republic has initiated negotiations with CARICOM and has announced the commencement of negotiations with the CACM. More-

over, the city of Santo Domingo was the location for the Meeting of Central American Presidents during November 1997. On this occasion, the position of the Dominican Republic to serve as the link between CARICOM countries and Central America, within the framework of a strategic alliance, was presented. The Foreign Affairs Ministry of the Dominican Republic has prepared a document to this end for discussion by Central American and CARICOM Foreign Affairs Ministers, during the first term of 1998.

The Dominican Republic's strategy seeks to benefit from the decades during which it was excluded from the international arena. However, the bridging option cannot be maintained indefinitely unless the relationship between these two groups of countries acquire a more strategic and transcendent strategy in the hemispheric game, by forming a third bloc of countries of the hemisphere. In fact, the follow-up of what occurred in the Southern Cone points towards the consolidation of a widened MERCOSUR or SAFTA while there is NAFTA in the north, leaving small countries without defined space. This third bloc "to be defined" is precisely the space which the Association of Caribbean States should fill.

Towards an attempt at a conclusion

The points outlined above permit me to conclude that although hemispheric negotiations can formally begin in April 1998, the reality is that the speed with which they progress will be determined by the advances and the consolidation of integration processes in the Southern Cone as well as from negotiations with the United States, which in the long-run, shall set the pace according to its needs. In the Island Caribbean in general (except in Trinidad and Tobago), as stated here, little will be achieved from the negotiations. Firstly, because their economies are oriented fundamentally towards services, the issue of vulnerability and small economies is practically not up for discussion unless there is agreement to give special treatment to the Member Countries of the Organization of Eastern Caribbean States (OECS). This issue does not seem to have or should have political consensus which may recognize the different levels of development in the region and should seek compensatory arbitration (very necessary for the others) more than technical assistance.

On the other hand, there is no empirical evidence that might demonstrate that structural liberalization reforms are a pre-requisite for the development of the tourism sector and the evidence that exists points in another direction (see Table on the Dominican Republic) and finally CARIFORUM countries can lose their societal benefits with Europe if reciprocity is granted to the United States of America.

This is one side of the coin, but: What will be the costs of not participating in the hemispheric game and what will be the necessary changes for participating in this game? There are two clearly identified costs and a need for change in the treatment of the issue.

Firstly, there is the problem of isolation, regardless of the final result. Non-participation in the process would be to deepen further regional marginalization, and the capacity for intervention in decisions, which would affect all countries. Non-participation would mean rejecting the possibility of influencing the process, and from benefiting from eventual investment flows to the region. Unfortunately, the islands do not have the necessary power to formulate management. However, as this is a complicated and contradictory confrontation process between the larger countries, there is need to seek a forum for differences and success to negotiate, thereby seeking tactical and strategic alliances.

Secondly, the issue of the export of goods and services remains unresolved. If tourism, duty-free zones, and remittances have sustained the balance of payments of the economies of the region, the following questions should be asked: why turn down the possibility of developing the export of goods seeking more adequate "niches"? How much more can tourism increase in the islands without generating costs and permanent losses for the environment and physical resources which in the long-term hinder the growth of the sector? Another problem remains to be solved: the breach between the trade balance is growing in the majority of countries. Once this trend continues, we will have to wonder whether the risk of the deficit of goods annulling the surplus of services, is being run.

Thirdly, once it is discovered that acceptance of globalization and the hemispheric game requires a management process and a strategy by small countries, so that they would not be overwhelmed by circumstances, and, that under such circumstances agreements which would increase relative negotiating power are demanded to seek similarities with partners in the continent (Central America) and other countries of the region, this would give rise to the need to understand the dynamics of integration in the rest of the continent, in order that it can formulate a congruent strategy with this dynamic.

In summary, the new international scenario demands movement of the axis for articulation of the foreign policy design for the Island Caribbean which generates the following changes: a) from a vertically oriented perspective exclusively to the United States of America towards a horizontal axis which aspires to the formation of regional blocs, b) from the parochial, provincial and local perspective to the international, world and hemispheric perspective, c) breaking the "cultural barriers" moving from Spanish to English and from English to Spanish.

This is a necessary process which jolts the manner of thinking and acting by designing a strategy with the remainder of Central American and Southern countries through the strengthening of the political will for negotiation as occurred prior to the hemispheric game.

The dilemma therefore is to participate or not to participate in the FTAA process. That is to say, to disassociate oneself from the political declarations made in Miami, Denver, Cartagena, Belo Horizonte and eventually in San José and Santiago. The problem is to determine how participation should be done whilst recognising the multiple difficulties in the process but being in a position to identify negotiating opportunities, but also having a clear strategy for factors which determine the competitiveness of economies.

As ECLAC has stated (1996a), the integration of international trade and investment currents is a necessary but insufficient condition for economic growth, "which in reality depends on the nature of its incorporation into a globalized and regionalized economy in turn. There is no concluding empirical evidence that there is a linear and positive ratio between trade and growth. On the contrary, in recent years, the increase of exports from the developing world, including Latin America and the Caribbean, is not translated into an increase of per capita income" (ECLAC 199a, pg. 19).

The question of the consolidation of the Island Caribbean bloc seeking a more strategic alliance between CARICOM, Cuba, and the Dominican Republic remains unresolved. This in turn should have a wider, open and long-term vision. The next step is to seek an alliance with Central American countries and jointly act as a bloc, in order to achieve not only greater efficiency in the management of limited resources and in the simultaneous participation of all negotiation groups without which the coordination and concertation of positions will become necessary. Regional organizations such as the Association of Caribbean States, CARICOM, and SIECA should have a fundamental supporting and accompanying role in these areas of the process.

Notes

1. Dominican Republic economist. Author of several publications and research works on the economies of the Caribbean and the Dominican Republic. Former President of the Association of Caribbean Economists, the Centre for Economic Research of the Caribbean (CIECA). Regular teacher at the Technological Institute of Santo Domingo (on leave) and is currently a Director at the Association of Caribbean States Secretariat.
2. In order to gain some insight into the work of the Association of Caribbean Economists since its Foundation in 1987, I recommend the reading of an excellent compilation by Norman Girvan *en* Whither ACE? A Retrospective Evaluation of Nine Years of the Association of Caribbean Economists. Prepared for ACE Retreat, Tobago, 1-2 June 1996.

3. In my opinion, the most important contribution of CARIFORUM and the ACP to the Dominican Republic has been in creating the launching pad for ending isolation and an effective point of contact with the English-speaking Caribbean.
4. Continued in Denver with the First Ministerial Summit on Trade (30 June, 1995) and the First Trade and Business Forum (1-2 July, 1996).
Second Ministerial Summit and Second Business Forum during 18-21 March in Cartagena, Colombia;
Vice-Ministerial Summit on Trade during 16-17 September, 1996 in Florianópolis, Brazil
Vice-Ministerial Summit on Trade during 25-27 February, 1997 in Recife, Brazil
Vice-Ministerial Summit on Trade during April 1997 in Rio de Janeiro, Brazil
Third Business Forum during 13-15 May, 1997 in Belo Horizonte
Third Ministerial Summit on 16 May, 1997 in Belo Horizonte
Vice-Ministerial Summit on Trade during 29-31 July, 1997 in San José, Costa Rica.
Vice-Ministerial Summit on Trade during 28-30 October, 1997 in San José, Costa Rica.
Vice-Ministerial Summit on Trade during 10-12 February, 1997 in San José, Costa Rica.
Fourth Business Forum during 16-18 March, 1998 in San José, Costa Rica
Fourth Ministerial Summit on Trade on 19 March, 1998, in San José Costa Rica.
5. Belo Horizonte Ministerial Declaration. www.alca-ftaa.org/spanish/Version/belos.htm.
6. ALADI countries are Venezuela, Colombia, Ecuador, Peru, Chile, Argentina, Uruguay, Paraguay, Brazil and Mexico.
7. The manner in which Brazil's hemispheric leadership has grown can be observed in the treatment and the behaviour of President Clinton during his visit to that country in October 1997, when he asked to be excused for the accusation of "endemic corruption" levelled at the South American country, and moreover his recognition of the importance of MERCOSUR. The international press also highlighted tensions caused by the control of security, which resulted from the visit to Brazil.
8. With the fast track it is guaranteed that executive negotiations may not be modified by the Congress of the USA. It was initially conceived in the 1974 Trade Law which would facilitate the participation of the United States in the Tokyo Round of the GATT, three Free Trade Agreements with Israel in 1985, in 1989 with Canada and in 1992 with NAFTA, and in 1994 it would approve and put the results of the Uruguay Round of 1994 into practice. (IDB, 1997).
9. In recent studies, it was stated that more than 475 disasters have been registered for the century in the area including Central America and the insular Caribbean (CREID, CIEEC, 1997), ECLAC estimates an annual average loss of 1.5 million dollars (Jovel 1989), which does not take into account the small-scale disasters, "whose annual impact tends to be similar to the large or medium-size disasters, nor the effects on the economy of the country, in terms of the GDP, public finances, foreign trade, employment, price indices and others". (ACS 1997)

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Annex Table 1

Basic indicators of Caribbean Basin Countries

	Population (thousands)	Area km ²	Density Pers/km ²	GDP per capita 1995 (3)	GDP US\$ 1995	HDI (2)	HDI World Position (2)	Capital	Date of Independence
Antigua & Barbuda	84	440	146	6,640	427	0.892	29	St. John's	1/1/1981
Bahamas	279	13,884	20	12,358	3,420	0.894	28	Nassau	10/7/73
Belize	284	431	613	7,120	1,863	0.907	25	Bridgetown	30/11/1966
Bermudes	27	21,966	9	2,896	684	0.868	63	Bermudian	21/9/1981
Bolivia	71	351	86	2,574	190	0.873	41	Rosario	31/1/78
Bonaire	98	314	283	2,344	230	0.843	54	St. George's	7/2/74
Guayana	789	214,060	35	2,851	831	0.848	104	Georgetown	28/5/1968
Haiti	7,180	27,760	258	965	2,402	0.739	156	Port-au-Prince	1/1/1964
Jamaica	2,500	11,424	218	1,742	408	0.836	83	Kingston	6/6/62
St. Lucia	145	616	236	3,083	448	0.833	83	Casuarie	22/2/1979
St. Kitts & Nevis	42	269	156	4,442	195	0.835	86	Basseterre	19/9/1983
St. Vincent & Grenadines	110	389	283	2,032	224	0.834	57	Kingstown	27/10/1979
Suriname	408	163,820	2	1,088	438	0.792	86	Paramaribo	25/11/1975
Trinidad & Tobago	1,282	5,066	249	4,101	5,175	0.880	40	Port of Spain	31/8/1962
CARICOM	13,424	484,130	29	1,511	20,290	0.546 (5)			
Costa Rica	3,424	51,000	67	2,687	8,233	0.869	33	San José	15/8/1821
El Salvador	5,662	21,040	269	1,673	9,471	0.892	112	San Salvador	15/9/1821
Guatemala	10,621	108,899	98	1,384	14,489	0.875	116	Guatemala	15/9/1821
Honduras	5,654	112,090	50	696	3,937	0.872	117	Tegucigalpa	15/9/1821
Nicaragua	4,124	130,700	32	464	1,913	0.830	127	Managua	15/9/1821
CACM	29,485	423,709	70	1,324	39,043	0.807 (5)			
Cuba (4)	10,664	114,525	88	1,113	12,200	0.723	65	La Habana	1/1/1959 (4)
Dominican Republic	7,250	48,308	150	1,863	12,055	0.716	67	Santo Domingo	27/2/1844
Panama	2,822	75,517	35	2,827	7,413	0.864	45	Panama	3/1/1903
Not Grouped	20,836	238,350	87	1,520	31,688	0.739 (5)			
Mexico	90,100	1,967,183	45	2,775	250,038	0.853	50	Mexico	15/9/1810 (3)
Venezuela	21,857	916,445	24	3,433	75,016	0.881	47	Caracas	5/7/1811
Colombia	35,900	1,141,748	31	2,120	76,112	0.845	51	Santafé de Bogotá	20/7/1810
G-3	147,852	4,025,376	37	2,713	401,166	0.857 (5)			
Aruba	62	188	434	16,810	1,370			Oranjestad	
Netherlands Antilles	207	783	265	7,871	1,632			Willemstad	
Dutch Territories	289	971	297	10,354	3,002			The Valley	
Anguilla	10	91	113	5,932	51			Plymouth	
Montserrat	10	102	98	5,155	52			Road Town	
British Virgin Islands	18	150	122	18,487	339			Georgetown	
Cayman Islands	32	260	123	28,125	900			Cockburn Town	
Turks and Caicos Islands	15	417	35	7,021	103				
British Territories	65	1,070	64	17,080	1,454				
French Guiana (1)	141	81,000	2	9,908	1,337			Guayenne	
Guadeloupe (1)	447	1,705	262	7,585	3,350			Basse Terre	
Martinique (1)	360	1,060	340	10,895	3,922			Fort de France	
French Departments	948	93,785	10	9,167	8,709			San Juan	
Puerto Rico	3,700	9,065	408	11,450	42,364			Charlotte Amalie	
U.S. Virgin Islands	102	342	298	13,163	1,340				
USA Territories	3,802	9,407	404	11,496	43,704				
Total	216,721	5,255,778	41	2,533	549,036	0.796			

(1) 1992 GDP data (2) HDI UNDP HDI Index (3) GDP Data from the ECUB, CUB World Bank and national sources (4) ACS estimation of the GDP (5) Regional HDI based on the population

Annex. Table 2

	Status within the ACS	CARICOM	OECS	Central American Common Market	LOME	CARIBCAN	Andean Community	Group of 3	Andean Pact	ALADI
Antigua & Barb.	Member	X	X		X	X				
Bahamas	Member	X			X	X				
Barbados	Member	X			X	X				
Belize	Member	X			X	X				
Dominica	Member	X	X		X	X				
Grenada	Member	X	X		X	X				
Guyana	Member	X			X	X				
Haiti	Member	X			X					
Jamaica	Member	X			X	X				
St. Lucia	Member	X	X		X	X				
St. Kitts & Nevis	Member	X	X		X	X				
St. Vincent & Gren.	Member	X	X		X	X				
Suriname	Member	X			X					
Trinidad & Tob.	Member	X			X	X				
CARICOM										
Costa Rica	Member/Not ratified			X						
El Salvador	Member			X						
Guatemala	Member			X						
Honduras	Member			X						
Nicaragua	Member/Not ratified			X						
CACM										
Cuba	Member									
Dominican Republic	Member				X					
Panama	Member									
Not Grouped										
Mexico	Member							X		X
Venezuela	Member						X	X	X	X
Colombia	Member						X	X	X	X

Table 2 (continued)

Annex. Table 2 (cont'd)

	Situation within the ACS	CARICOM	OECS	Central American Common Market	LOME	CARISCAN	Andean Community	Group of 3	Andean Pact	ALADI
Aruba	Eligible for Associate Membership									
Dutch Antilles	Eligible for Associate Membership									
Dutch Territories										
Anguilla	Eligible for Associate Membership		Associate			X				
Montserrat	Eligible for Associate Membership		X			X				
British Virgin Is	Eligible for Associate Membership		Associate			X				
Cayman Islands	Eligible for Associate Membership					X				
Turks And Caicos Islands	Eligible for Associate Membership					X				
British Territories										
French Guiana	Non-ratified Associate									
Guadeloupe	Non-ratified Associate									
Martinique	Non-ratified Associate									
French Departments										
Puerto Rico	Eligible for Associate Membership									
US Virgin Islands	Eligible for Associate Membership									
USA Territories										

Status within the ACS: Key - Member: State which has signed and ratified the Convention

Member/Non-ratified: Signatory State of the Convention whose Legislature has not yet ratified the Convention

Eligible for Associate Membership: The States, Countries and Territories which may not have signed the Convention, but participate actively in the activities of the Association

Note: in the case of the Dutch territories, although they have not signed the Convention, they participate actively in the activities of the Association.

Associate, non-ratified: The Republic of France signed the Convention in 1986 as an Associate Member on behalf of Guadeloupe, Martinique and French Guiana.

The Parliament has not yet ratified the Convention

Table 3
Main partners of some Latin American and Caribbean countries: exports

Countries	Argentina 1996	Brazil 1996	Uruguay 1996	Paraguay 1995	Chile 1996	Peru 1996	Bolivia 1995	Ecuador 1995	Colombia 1995	Venezuela 1995	Mexico 1996	CARICOM 1995	CACM 1994
ALADI	46.6	22.9	59.9	63.9	19.0	15.8	35.1	17.5	21.7	20.8	3.6	6.7	5.0
Andean Group	4.9	4.0	2.8	4.0	6.6	7.2	18.4	8.2	17.4	10.0	1.3		2.0
G-3	3.3	3.3	2.3	3.3	3.1	5.9	5.9	7.8	8.2	8.5	0.9		3.5
Mercosur	33.2	15.3	51.1	56.8	11.5	4.9	14.4	3.5	1.7	9.2	1.6		
United States	8.3	19.5	6.0	3.8	15.4	19.9	27.8	42.8	39.6	51.0	84.0	43.1	37.0
Canada										1.1	2.3	6.3	1.2
European Union	19.2	26.9	17.0	20.0	24.2	26.7	25.9	19.3	22.9	9.1	3.7	23.9	23.5
Japan	2.2	8.4	1.0	0.0	16.4	6.6	0.3	2.7	3.3	1.5	1.4	0.8	1.8
Rest of Asia	2.5	4.3	8.8	5.0	14.0	7.2		6.6			0.7	0.5	2.0
Rest of the World	21.3	20.0	7.3	7.3	11.0	23.8	10.8	11.0	12.3	16.5	4.2	18.8	29.7
Total	100.0	100.0	100	100	100.0	100	100	100	100.0	100	100	100	100.0

Source: ALADI, CARICOM and SIECA

Table 4
Main trading partners of some countries of Latin America and the Caribbean: imports

Countries	Argentina 1996	Brazil 1996	Uruguay 1996	Paraguay 1995	Chile 1996	Peru 1996	Bolivia 1995	Ecuador 1995	Colombia 1996	Venezuela 1995	Mexico 1996	CARICOM 1995	CACM 1994
ALADI	30.8	21.6	50.1	43.1	27.7	34.4	38.5	29.8	23.4	21.2	2.2	10.0	15.52
Andean Group	1.9	2.6	3.0	0.0	5.4	18.4	8.0	16.8	13.3	9.4	0.6		7.52
G-3	3.0	3.7	3.6	0.1	8.7	19.7	3.8	19.6	13.2	10.8	0.0		11.80
Mercosur	24.3	15.6	44.0	39.4	16.7	8.8	21.5	6.5	4.9	7.4	1.2		2.78
United States	20.0	25.3	12.0	12.5	24.4	26.1	22.7	30.8	38.2	42.5	75.6	50.8	41.80
Canada										4.2	1.9	4.4	1.07
European Union	29.1	26.5	19.4	11.0	21.0	17.8	20.1	15.2	20.0	17.9	8.6	16.9	12.16
Japan	3.1	3.8	2.2	8.7	5.6	5.2	12.6	8.6	5.7	4.4	4.4	5.6	
Rest of Asia	2.9	3.7	3.8	13.0	8.8	2.4		2.4			3.3	4.0	4.30
Rest of the world	14.1	19.0	12.5	11.6	12.3	14.1	6.1	13.1	12.7	9.7	4.0	8.3	19.81
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100	100.0	100	100.00

Source: ALADI, CARICOM and SIECA

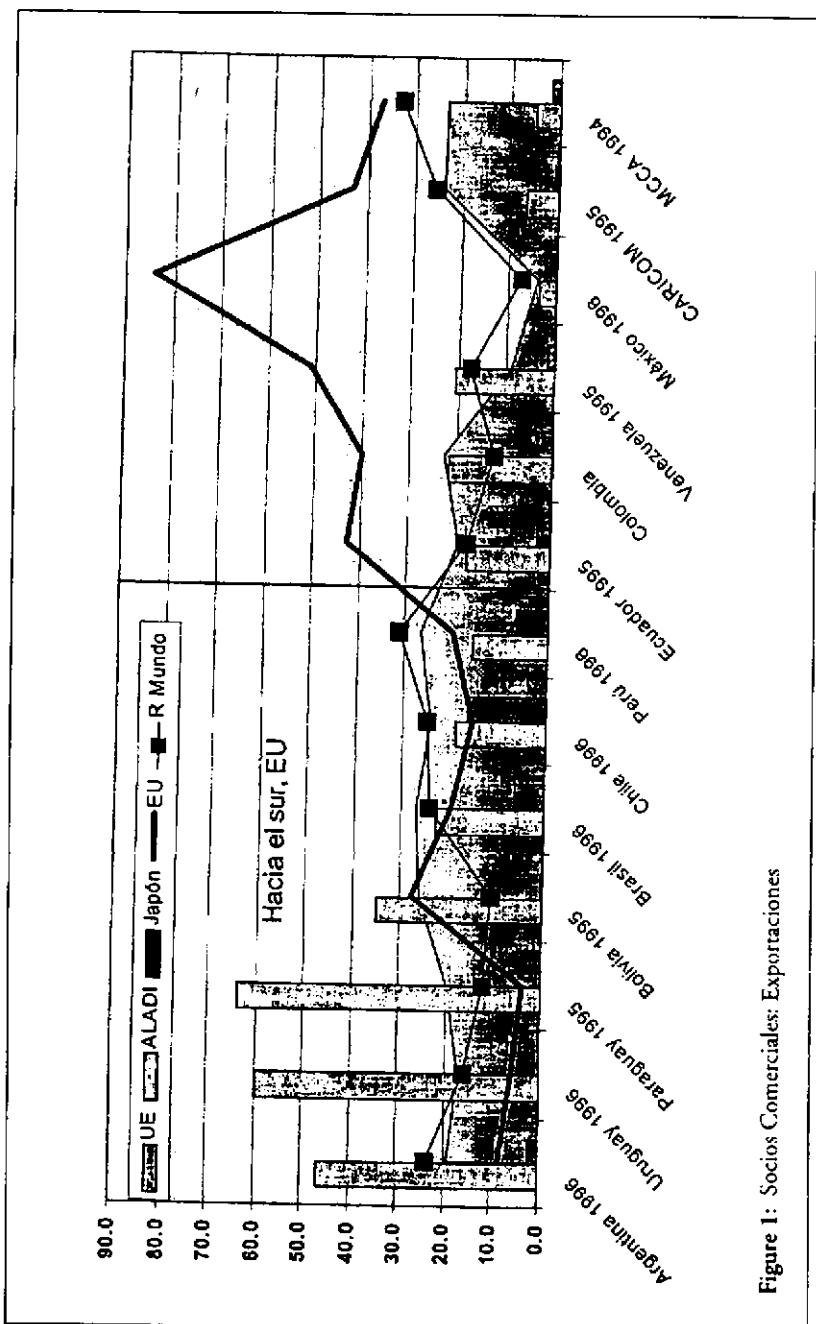


Figure 1: Socios Comerciales: Exportaciones

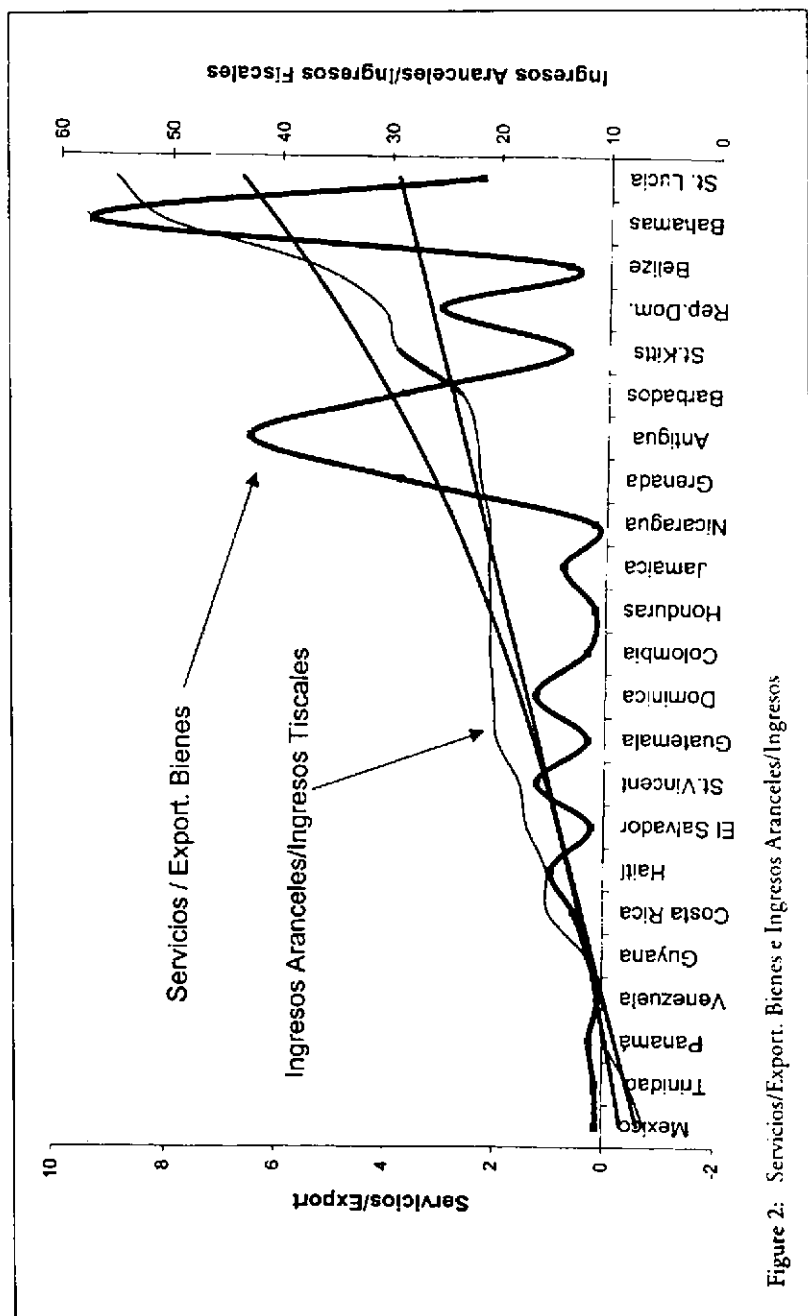


Figure 2: Servicios/Export. Bienes e Ingresos Aranceles/Ingresos

Strategic Alliance Declaration between Central America and the Caribbean

The Chiefs of State and Government/(Ministers of Foreign Affairs) of Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Antigua & Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts & Nevis, St. Lucia, St. Vincent & the Grenadines, Suriname, Trinidad & Tobago, Haiti and the Dominican Republic, have met in the city of _____, during the days of __ and __ of _____ of 199__, with the purpose of confronting a series of regional and national challenges, with the creating of a Strategic Alliance , that will permit us to develop a virtual working relationship amongst our nations to achieve the ends established further in this declaration.

Considering that:

- I. During these last years international economic relations are changing rapidly due to strong economic, social and political forces that are thrusting a process of market globalization and an increase in international competition.
- II. These groups of forces and changes are creating for countries like ours, great opportunities to influence the construction of a new regional order and to strategically position our countries in the global economy.
- III. Many of our enterprises, acting in consequence, are transforming their production processes to become more competitive, through reengineering processes, restructuring, quality programs, mergers, acquisitions, strategic changes and cultural changes; assuming with this a leading role and requiring from our governments a role as regulator and facilitator.
- IV. Within this context of economic transformation, our governments are participating more proactively manner to facilitate the adaptation to change, of our productive sectors, so that they take advantage and benefit from it.

- V. In the framework of its relationship with the United States of America the region faces the challenge of preparing for the new circumstances that will affect the benefits provided by the Caribbean Basin Initiative (CBI) with the birth of the Free Trade Area of the Americas (FTAA) in the year 2005. The region needs to continue defending the benefits obtained under the Caribbean Basin Initiative, as well as seeking commercial parity, to receive the same treatment that Mexico is obtaining in the North America Free Trade Area (NAFTA), as an intermediate step to reach the FTAA.
- VI. In the framework of its relationship with the European Union, most of the countries of the region face the challenge of conserving the principal benefits obtained in Lome IV and preparing for the substantial changes in the benefits provided to the region, that could happen when the Lome IV convention concludes, as we know it, in February of the year 2000.
- VII. In the global framework, the strengthening of the World Trade Organization (WTO) disciplines, intended to liberalize trade equitably for all, is hindering the maintenance and renewal of regional preferential trade schemes, especially of non-reciprocal arrangements, such as the CBI and Lome IV. Thus the region has to strengthen its arguments and negotiating position in favor of maintaining the main benefits provided by these arrangements.
- VIII. In the regional framework, the need for consistency of regional free trade agreements with the guiding principles of the WTO and the future FTAA are making regional negotiations more interdependent with global negotiations at the WTO level and demanding from us and other countries in the region, a better coordination of our efforts; a need reinforced by the fact that all of our countries are debating simultaneously about the same issues.
- IX. The region's present situation, the opportunities and challenges our countries have before them, as well as our strengths and weaknesses at the regional and national level, requires that the governments of the Caribbean and Central America, agree on issues of regional interest; to place our nations in the best possible position to take advantage of the changes are expected to happen with the beginning of the 21st Century.
- X. The union of the national markets of the signatory countries of this strategic alliance, will create a regional market of more than 60 million consumers, that produces some \$155 billion american Dollars and offers a labor force of more than 16 million workers. This market would offer a great business potential for us as well as for our partners from the United States, the European Union, Asia and South America.

- XI. The Caribbean Basin region exhibits the strength of being located in an ideal and strategic geographical position, between different economic block like the North American Free Trade Area (NAFTA) to the north and the Southern Common Market (MERCOSUR) and the Andean Group to the south.
- XII. While facing the consolidation of different international economic blocks that is happening, inside and outside our hemisphere, relatively less developed countries like ours, by themselves, have no large specific weight to influence the international framework, but they do have the possibility of maximizing their effectiveness by creating international strategic alliances.

The Signatory Nations of this Alliance decide to:

- A. Concert a Strategic Alliance between the countries of the Caribbean Community (CARICOM), Haiti, Central America, Panama and the Dominican Republic, to maximize the region's full potential in the hemispheric integration process and to confront united other extraregional challenges.
- B. Ensure the equity of this alliance, respecting the rights of each ally to work independently in support of its particular national goals, and committing ourselves to contributing to the strengthening of the alliance, both politically as well as economically.
- C. Contribute the best human resources possible, from our public sector as well as the private sector, to the defense of the region's collective interests, sharing and reducing our risks and costs, and benefiting from the synergy that this Alliance will provide us.
- D. Commit, as a region, to accomplishing the following goals:
 - 1. Create a free trade area of goods and services, between the countries of CARICOM, Haiti, Central America, Panama and the Dominican Republic; creating a free market of 60 million persons; with the purpose of starting to develop interregional free trade in preparation for our integration into the FTAA in 2005 and into the global economy.
 - 2. Support the increased competitiveness of our producers of goods and services, rapidly opening our markets to other producers of the region, to derive mayor benefits from the economies of scale as well as from the processes of reengineering, restructuring, quality controls, mergers and acquisitions, technological, strategic and cultural changes of the region's enterprises.

3. Strengthen the region's capacity to promote national, interregional and foreign investments in the signatory countries, by continuously evaluating and improving the investment climate in each of the signatory countries; and also by using regional investment promotion campaigns that envision the region as an ideal market for investments.
4. Open and liberalize the region's air and sea transportation services markets, in order to increase the volume and diversity of the supply of these services and to promote competition among these suppliers, within the region.
5. Promote interregional tourism, among us and extraregionally, by coordinating and developing promotional activities that envision the region in certain targeted countries as ideal places for tourism.
6. Increase the region's negotiating capacity and power by coordinating extraregional policies and strategies, with respect to the United States, the European Union and the WTO, with emphasis on the following issues:
 - Support of the negotiations of the Caribbean Basin countries in obtaining parity type benefits, so the region receives a similar treatment to the one Mexico receives in NAFTA, as an intermediate step towards joining the FTAA in the year 2005.
 - Support of the negotiations of the signatory countries with respect to the FTAA; on the one hand with Mexico, Canada, and the United States, in North America (NAFTA); and on the other hand with Argentina, Brazil, Paraguay, and Uruguay (MERCOSUR), and Bolivia, Colombia, Ecuador, Peru, and Venezuela (Andean Group), and Chile, in South America.
 - Support of the negotiations of CARIFORUM countries with the European Union and with the other ACP (Africa, Caribbean and Pacific) States, in favor of a Lome IV successor agreement.
 - Coordinate meetings prior to WTO negotiations between the countries of the region.
7. According to extraregional circumstances and interregional needs, coordinate regional positions with respect to international organizations on economic, commercial, and financial issues related to the fundamental principles and goals that guide this alliance.

The Chiefs of State and Government/(Ministers of Foreign Affairs) of _____, thank the _____ and, through him, the people _____ of, their warm hospitality, the excellent facilities and the attention received, which contributed decisively to the success of this historic meeting.