

Trade Preferences and Policies of the Commonwealth Countries of the Caribbean

The Generalised System of Preferences

While, under the UR agreement, the reductions in tariff barriers are substantial, in many sectors the developing countries enjoy preferential access under GSP, and these MFN tariff reductions will actually erode their margins of preference. As regards the Commonwealth Caribbean countries this only affects (i) their exports to developed market economies (DMEs) outside the EU, the US and Canada and (ii) exports to the US, Canada and the EU which are excluded from the CBI, CARIBCAN and Lomé schemes respectively. However, the only excluded Commonwealth Caribbean exports of major significance are apparel exports to the US which, in any event, are omitted from the US GSP scheme.

The share of Commonwealth Caribbean exports going to the OECD countries outside of North America or the EU is generally small. But there are some important trade flows which take advantage of GSP preferences: boats from Antigua and Barbuda (7.5 per cent of the country's total exports to the OECD in 1991-2), the Bahamas (8.3 per cent), and St. Vincent and the Grenadines (1.5 per cent), cocoa beans from Grenada (10.1 per cent), fish and crustaceans from Guyana (3.3 per cent) and St. Vincent (15.1 per cent), rum from Jamaica (0.9 per cent)². Jamaica also exports some apparel to the other OECD countries (undergarments account for 1.7 per cent of total exports to the OECD). Outside the United States, Jamaican exports of textile products are generally not subject to MFA quotas.

GSP tariffs were not discussed in the Round because the US and EU argued that they are discretionary, non-negotiable concessions. However, as the GSP schemes come up for

renewal, GSP tariffs are likely to be adapted to take the Round into account. GSP rates may be reduced in response to MFN tariff reductions, particularly in agriculture though, for industrial products, most GSP rates are already zero.

For a number of reasons many developing country exports to the developed countries do not receive GSP treatment. Many GSP schemes exclude or limit the preferences on particular products – the EU scheme *inter alia* excludes many minerals and metals, starches and some categories of leather and the US scheme excludes textiles and apparel. Secondly exporters sometimes find the schemes uneconomic where the preference margin is small or the rules of origin are not easily met. As a result the share of imports from GSP beneficiaries which actually receive GSP treatment is often very low. For the OECD as a whole the share in 1992 was 23.7 per cent.

Of course South-South exports do not qualify for GSP treatment, though most of the transition economies in Eastern Europe as well as Russia and the Ukraine now operate GSP schemes. In addition, GSP tariffs are not bound in GATT terms and the various schemes can be wound up at the discretion of the donor country. Thus, MFN tariffs are still far from being irrelevant to developing countries.

One immediate effect of reductions in MFN rates is then to damage Caribbean exports which enjoy GSP preferences. However, to the extent that many exports do not qualify for these preferences or are excluded for some other reason, cuts in MFN rates are clearly of benefit. UNCTAD has calculated the effects of the UR on GSP preference margins (UNCTAD 1994). Its report notes that, when exports of the developing countries are classified into seven groups,

trade-weighted average MFN tariff reductions are, with some exceptions for Canada and Japan, fairly consistently lower for developing country exports than for developed country exports. In fact, given the higher level of pre-Uruguay Round overall trade-weighted MFN tariffs facing imports from the developing countries in the markets of the Quad countries [the United States, Japan, Canada and the European Union], Japan again being the exception, this leaves post-Uruguay Round rates facing imports from the developing countries higher than those facing imports from all sources (p.24). In two cases – US and EU tariffs on natural resource-based products – the post-UR rates on imports from developing countries are higher than the pre-UR rates on imports from all sources.

When GSP rates are factored in, at their existing levels or the post-UR most favoured nation (MFN) rates, whichever are lower, trade-weighted tariff averages facing the developing countries fall significantly but the UR effect is attenuated. On all imports the post-UR tariff averages on developing countries' products imported into the US and Canada are still higher than the average tariffs facing all imports into these two countries. One reason is the weight of high tariffs on textile and leather product exports in the developing countries' total. But even if textile products are taken alone, because of the developing countries' mix of these goods, the average GSP-adjusted tariff on their exports is still higher in the Canadian and US markets than the average for all imports of those goods. EU tariffs, adjusted for GSP rates, on non-tropical agricultural products from the developing countries are higher than those from all sources. The same is true of Japanese imports of industrial items excluding textile and leather products.

The main significance of this to the Caribbean is not so much that their limited GSP exports will be damaged, but that the UR will make diversification of exports into new OECD markets more difficult. Exports of the DMEs will generally enjoy greater tariff cuts than those of the developing countries. Exports of apparel,

footwear and non-tropical agricultural products, including, for example, winter vegetables, will benefit least.

The Lomé Convention

As regards the ACP States, most of the same considerations concerning the erosion of preferences apply a fortiori since Lomé trade preferences are less hedged with restrictions than those under the GSP schemes. It appears that close to 100 per cent of dutiable goods originating in the ACP States are granted preferential access in the EU market. Unfortunately the EU Commission does not make public statistics of the values of imports from ACP sources, in total or by commodity group, that receive preferential treatment vis-à-vis imports from other developing countries.

The Lomé Convention provides for preferential access to the EU market, at least equivalent to GSP treatment and guaranteed for the life of the Convention, currently ten years. In manufacturing, this preference is constrained by rules of origin, though derogations from these are available – normally granted readily according to the Commission – on application to Brussels.

Under Lomé IV, Commonwealth Caribbean exporters have tariff- and quota-free entry into the EU market with respect to all manufactured goods except rum (see below). ACP States are not subject to MFA quotas. For agricultural goods there are special preferences, generally tariff-free and NTB-free access for products not produced under Common Agricultural Policy (CAP) regimes or not competitive with such products (e.g. cane sugar competing with beet). For CAP or CAP-competitive goods, including rice, there is generally some alleviation of the tariff or variable levy.

Prior to the implementation of the UR agreement, the three main instruments of preference in agricultural trade with the EU were: derogation from tariffs, subject, for certain fruits and vegetables, to the marketing timetable, though

Table 4: Share of selected products in exports to the European Union, 1988-93, per cent

		1988	1989	1990	1991	1992	1993
Belize	Bananas	34.9	38.0	32.9	30.0	32.4	42.4
	Sugar	50.8	50.1	57.3	56.3	56.2	40.6
St. Kitts/Nevis	Sugar	85.3	93.4	98.2	98.0	77.2	93.7
The Bahamas	Rum	15.5	11.0	13.9	17.1	13.8	11.8
Dominica	Bananas	93.2	83.0	92.2	94.2	88.6	83.6
	Sugar	0	9.6	0	0	7.1	9.1
Jamaica	Bananas	10.3	6.6	15.5	17.7	16.5	14.3
	Sugar	29.1	20.5	20.1	22.1	22.1	20.6
	Rum	4.1	1.9	2.4	2.3	2.6	2.2
St. Lucia	Bananas	96.6	96.2	96.7	95.5	91.3	93.3
St. Vincent	Bananas	75.6	79.6	86.3	89.8	62.4	48.7
Barbados	Sugar	71.5	44.4	65.1	73.6	67.4	58.2
	Rum	2.9	6.3	4.7	3.5	3.9	4.4
Trinidad/Tob.	Sugar	13.7	11.5	10.9	13.8	13.3	15.3
	Rum	16.7	24.6	28.1	26.0	42.4	47.1
Grenada	Bananas	36.1	38.4	48.5	47.8	49.6	24.5
Guyana	Rice	13.5	8.3	10.0	9.7	4.2	6.6
	Sugar	44.2	54.7	56.8	55.4	71.6	62.7
	Rum	9.1	9.4	9.4	8.3	5.3	11.2
	Bananas	10.5	8.3	7.3	10.7	9.4	15.1
Total	Rice	4.1	2.5	2.5	2.2	1.3	1.0
	Bananas	19.7	14.8	17.2	17.6	17.0	15.7
	Sugar	14.9	13.6	13.6	15.4	17.4	15.2
	Rum	5.1	5.7	7.0	7.5	8.3	9.0
	4 products	43.8	36.6	40.3	42.7	44.0	40.9

Source: COMEXT data bank

for most CAP products tariffs were small and used to supplement variable levies; reductions (of about 50 per cent) in the variable levy, though in many cases subject to tariff quotas, on maize, millet, sorghum and rice, poultry meat, pig meat and dairy products; and specific quotas for beef, sugar, rum and bananas. Since the beginning of 1995, the EU's variable levies and other agricultural NTBs have been tariffed. Most CAP products the Lomé countries now enjoy tariff-free or tariff-reduced quotas. But it is the quotas for sugar and bananas that really count for the Commonwealth Caribbean countries, with the special access arrangements for rice being of major significance for Guyana (see Table 4).

Under the Sugar Protocol to Lomé IV the EU guarantees to buy specific quantities from par-

ticular ACP States at a price negotiated annually but which in the past has closely followed the price guaranteed to EU sugar beet growers. A significant fall in internal prices would likely be reflected in the price paid for ACP sugar. Between 1986 and 1993 the ACP Guaranteed Price had fallen in nominal terms by 3.5 per cent and, in real terms, when deflated by the price of tractors or centrifugals or by the UK retail price index, by 21 to 33 per cent (virtually all the sugar is sold to the UK).

Under Protocol 5 of Lomé IV, rum from the ACP States is admitted to the EU duty-free in quantities determined on the basis of the largest amounts imported over the last three years for which statistics are available, increased by an annual growth rate of 37 per cent on the UK

market and 27 per cent on other EU markets. The abolition of the Community tariff quota is projected for 1996. The Bahamas, Guyana, Jamaica and Trinidad and Tobago supply about 66 per cent of the world exports of rum and are generally perceived as being competitive in the sector.

A new and controversial **banana** regime has been established by the EU and has come into operation in 1994. Up to 1993 the EU market was compartmentalised with certain Member States maintaining quotas or import prohibitions to preserve markets for their traditional suppliers. These mechanisms were inconsistent with the 1992 Single European Market. The difficulty in finding a mechanism which continued to give special access to the traditional suppliers within a single market for bananas was compounded by the need to invent a regime that could be justified under GATT rules, particularly in a year when the UR negotiations were coming to a head. In the event GATT has condemned the regime and both the Latin American and the ACP exporters feel aggrieved by the new arrangements.

The new regime depends on the use of tariff quotas and differential tariff rates to maintain markets for the ACP suppliers vis-à-vis the more price competitive dollar banana producers of Central America, Ecuador and Colombia. EU supplies – from Martinique, Guadeloupe, the Canaries, Algarve and Crete – are not restricted. Quotas based on traditional imports from ACP sources enter duty-free (up to a total 857, 000 tonnes) while the dollar banana producers, together with non-traditional ACP production (above-quota amounts from traditional suppliers or imports from new ACP suppliers), are limited to a tariff quota of 2.1 million tonnes for 1994, rising to 2.2 million tonnes in 1995 with a duty of 75 Ecu/tonnes (roughly 15 per cent) or zero in the case of the ACP. In this way the previous importers and processors of ACP or EU imports are given an incentive to continue with those suppliers. Imports above the tariff quota are subject to a prohibitive tariff.

A number of Commonwealth Caribbean

countries, in particular the Windward Islands, are still very dependent on exports of bananas. Some discussion of the details of the regime is given in Appendix A. The general conclusion is that, if the regime survives further possible complaints in the WTO framework, it could provide a lifeline – in the form of stable markets but at significantly reduced prices – for the Caribbean producers until 2002 when it is due to be ended. What is critical is that the process of diversification is accelerated, so that the end to the regime does not leave the most dependent countries with vast gaps in their export revenues.

Under Annex 40 of Lomé IV the ACP States have a preference in their exports of **rice** to the EU in the form of a reduction in the import levy of 50 per cent together with a specific Ecu reduction depending on the nature of the rice, all up to a maximum of 125,000 tonnes of husked rice equivalent and 20,000 tonnes of broken rice. Among the Commonwealth Caribbean countries, only Guyana is a significant exporter of rice. But there have been complaints from Guyana and Surinam – also a major rice exporter – that present rice quotas are insufficient.

The Mid-Term agreement on the Uruguay Round already saw some reductions in ACP tariff preferences on **tropical beverages**. The Final Act sees further erosion of preferences on most of these products. In some cases, ACP preferences have been eliminated by bringing MFN tariffs down to zero. This has been the case in cocoa beans and coffee beans.

The role of **other ACP preferences** in Commonwealth Caribbean exports is at best ambiguous. Through a comprehensive study of detailed ACP export data, McQueen and Stevens (1989) identified a set of non-traditional products where there has been an encouragingly rapid growth of ACP exports of new commodities; but the growth at issue in almost every instance was of the exports of some African or Pacific country. Even then the results could be interpreted in different ways. McQueen and Stevens (1989) interpreted them (including those on agricultural products) as evidence of

the value of preferences and of further potential, though admitting that, within their sample, there seemed to be little correlation between success and the depth of the preference margin. Davenport and Stevens (1990) argue that tariff preferences per se have had no clear effect on the ACP exports of **crude or processed tropical products** relative to developing country exports as a whole.

The only Commonwealth Caribbean country to feature in these results was Jamaica and the only significant performance was in miscellaneous cut flowers (CN 060319) and outer garments, knitted or crocheted (CN 6005). Since those data were collected, Jamaican exports of cut flowers have stagnated.

The Caribbean Basin Initiative (CBI) and CARIBCAN

Under the Caribbean Basin Economic Recovery Act (CBERA) of 1990, which extended the original 1983 Act, Commonwealth Caribbean countries enjoy tariff- and quota-free access to the US market for all goods, subject to a short but critical list of exceptions. These exceptions include most textiles and apparel, some leather goods including footwear, petroleum and petroleum products, canned tuna and certain agricultural products. Tariffs on handbags, luggage and most leather goods other than footwear were reduced by 20 per cent in five equal annual stages beginning in January 1992. Ethanol and ethyl alcohol, sugars, syrups, molasses and beef and veal are eligible for duty-free entry only if the exporting country has submitted an acceptable stable food production plan. Sugar exports are subject to US quotas which vary from year to year.

Exports benefiting from CBI access are subject to rules of origin, which basically require that:

- ❖ 35 per cent of value added be contributed by the country in question, though this may be cumulated over CBI countries and up to 15 per cent may take the form of imports from the United States;

- ❖ a substantial transformation takes place in the CBI country, which is now interpreted as a shift in HS classification.

The benefits of the CBI programme over those of the US GSP are that:

- ❖ the CBI is not time-limited as is the GSP – thus it is more likely to stimulate FDI;
- ❖ the CBI allows for cumulation to meet the rules of origin whereas the GSP does not;
- ❖ designated GSP beneficiaries may be graduated from the programme – losing all benefits – whereas there is no graduation from the CBI. Also there is no country-product graduation comparable to the GSP competitive-need limits;
- ❖ there are additional financial provisions under the CBI including scholarship assistance and agricultural infrastructure support.

The main Commonwealth Caribbean exports products benefiting from the CBERA are carboxylic acid drugs (Bahamas), steel wire rod (Trinidad and Tobago), ethyl alcohol and raw sugar (Jamaica), switches for switching (sic) (St. Kitts and Nevis), rum and yams (Jamaica), frozen orange juice (Belize), methanol (Trinidad and Tobago), electrical resistors (Barbados). In recent years the share of manufactured goods has risen at the expense of food and raw materials.

The strong growth of the share of Trinidad and Tobago has been due to exports of iron and steel rods and bars. Among the smaller Commonwealth Caribbean countries, Belize was the principal supplier under the CBI of frozen orange juice. The rapid growth in Dominica's exports was largely owing to increased consignments of grapefruit juice and ginseng. The sharp decline in CBI exports by St. Vincent and the Grenadines may have been associated with the closure of a tennis racket factory, a significant blow to hopes that the CBERA would bring a wave of new manufacturing to the smaller

Table 5: US imports under the CBERA, 1986-90, \$ 000

	1984	1990	1992	1993	Total US imports, 93 \$m.	CBERA impts. as % total US imports 93
Antigua	114	675	324	1,110	14.8	7.5
Bahamas	0	8,578	93,324	167,110	341.5	48.9
Barbados	13,376	15,198	15,478	20,176	34.0	59.3
Belize	4,621	18,566	23,733	12,526	49.0	25.6
Dominica	9	1,330	1,008	1,293	5.8	22.3
Grenada	2	2,809	1,081	144	7.9	1.8
Guyana	n.a.	521	1,202	1,242	87.9	1.4
Jamaica	44,737	60,689	48,154	76,451	710.3	10.8
St. Kitts	6,757	10,136	14,172	15,985	23.8	67.2
St. Lucia	1,413	3,552	3,935	4,463	31.3	14.3
St. Vincent	55	1,517	165	233	4.9	4.8
Trinidad	6,422	38,274	44,695	44,593	783.7	5.7
total	77,506	161,845	247,271	345,326	2,094.9	16.5
Jamaican exports as % of total	57.7	37.5	19.5	22.1	33.9	

Source: USITC (1994)

islands. The factory appears to have failed when weakness in the US dollar rendered imports uncompetitive.

US imports under the CBERA for selected years are shown, together with total imports in 1993, in Table 5. The total value of exports benefiting from the CBERA has been rising rapidly though only 16.5 per cent of Commonwealth Caribbean exports actually benefited in 1993. This figure is low because US imports duty-free under the MFN tariff schedule of under the United States Generalized System of Preferences are included in the denominator. Taking US imports from all CBERA countries, 21 per cent in 1993 entered duty-free under the MFN, 18.5 per cent under the CBERA, 21.5 per cent under the special regimes for goods manufactured from US inputs, and 5.2 per cent under the GSP and other preferential schemes (USITC, 1994). Where a product could benefit from either the CBERA or the GSP it is classified as entering duty-free under the CBERA which is the more advantageous of the schemes. However, that does make the statistics difficult to interpret.

Another reason for the rather disappointing share of Caribbean exports benefiting from the CBERA is the relatively low utilisation rate. Since some goods could enter the US duty-free under either the CBI or the GSP, the statistics cannot separate CBI take up from GSP take up. But if we assume that in all cases CBERA duty-free access would have been chosen over GSP duty-free access on the grounds that the eligibility rules favour the former, then the utilisation rate is 61 per cent (USITC, 1994).

The reasons for the low utilisation of the CBI preferences probably include the rules of origin, the failure to supply a satisfactory stable food production plan for certain agricultural products, ignorance of the opportunities on the part of exporters or the bureaucratic hassles associated with the required customs pre-clearance. The relative weight of these and other explanations could usefully be studied with a view to improving the utilisation rate.

Normal textile and apparel items are not included in the CBERA scheme. However, the Caribbean countries enjoy special preferences in

respect of textile and clothing exports under HS 9802-00-60 and 9802-00-80 (previously 806.30 and 807A). Under these tariff heads, metal articles made of US metals and articles of apparel which have been made out of textiles formed and woven in the United States are subject to duty only on the value added outside the US. Only in the case of apparel is this derogation used substantially and, in that sector, it is of strategic significance for Jamaica, though Trinidad and Tobago also has a Guaranteed Access Level (GAL) agreement with the US.

CBI countries have, since 1986, been able to initiate bilateral agreements with the US that will guarantee levels of access for qualifying textile and apparel products. These GALs are separate from the MFA or other quotas on products that have not been assembled solely from US-made and US-cut fabrics. Certain 9802-00-80 products, notably footwear, handbags and luggage assembled from US components, are now eligible for duty-free entry to the US – NAFTA-parity already applies – but this does not include the apparel products of most interest to the Commonwealth Caribbean countries, notably Jamaica.

The share of **Jamaican** exports under the CBERA rose up to 1988 but has been falling. Jamaica uses the scheme mainly for exports of ethyl alcohol, sugar, rum, yams, cigars and beer in that order. For Jamaica exports of apparel from US-formed and -cut fabrics are more important, accounting for \$294 million in 1993 as against \$76 million under the CBERA (JCTU, 1994).

Under **CARIBCAN**, the region enjoys tariff-free and quota-free entry to the Canadian market for most manufactured exports, the exclusions being similar to those excluded under the CBI II.

CARICOM and other regional trading arrangements and policies

After independence most of the English-speaking islands joined together to form the Federation of the West Indies. The Federation was dissolved in 1962 and the member states moved on to independence on their own, or in the case of some of

the smaller islands, to self-government under the British crown. The appreciation of their common cultural heritage and awareness of their common economic interests resulted in the establishment of a number of joint enterprises – including the University of the West Indies and a Caribbean Free Trade Area (CARIFTA). The latter expanded and deepened into a customs union, CARICOM³.

The CARICOM countries have in principle a Common External Tariff (CET) though there are many formal exceptions to that principle – for example the least developed countries (LDCs) are not required to abide by the CET for non-competing products – plus some which are unsanctioned⁴. CARICOM has made an offer under the UR formulae which will reduce the unweighted average CET to around 13 per cent by 1998 from about 20 per cent in 1991 (World Bank 1994a). Tariffs will range from zero to 20 per cent, with the exceptions of agriculture products at 40 per cent and certain revenue raisers at above 20 per cent. Agricultural inputs and certain non-competing inputs in the OECS and Belize will have zero tariffs. Agro-industry products, apparel, non-competing final goods and general manufactures will be rated at 20 per cent, competing intermediate inputs at 15 per cent and competing primary inputs, competing capital goods and selected export products at 10 per cent.

The CARICOM countries established a timetable for tariff reductions in advance and independently of its formalisation as the UR offer. These reductions in general go beyond the requirements of the Uruguay Round agreement in agriculture and formed the basis of the Caribbean countries offers in industrial goods.

Despite the objective of a CET, the CARICOM member states have, since the outset, maintained their own NTBs, both licensing arrangements and other quantitative restrictions, and public sector monopolies, and supplementary tariffs – sometimes known as stamp duties. Considerable progress has been made in reducing these, to some extent under prodding from the Bretton Woods institutions

Table 6: Shares in total exports by SITC 3-digit category: simple correlation coefficients (a)

Colombia	Venezuela	Other Carib.	Central America	Mexico	Canada	% expts. (b)
CARICOM	0.61	0.40	0.04	0.53	0.11	0.91
Colombia Venezuela		0.10	0.10	0.93	0.17	0.89
Other Carib.			0.17	0.04	-0.03	0.93
Central America				0.02	-0.05	0.79
Mexico					0.34	0.64
Canada					1.00	0.58

(a) Based on 16 most important exports at 3-digit SITC level of each country

(b) per centage share of exports used in calculations

through the structural adjustment programmes which they have encouraged across the region. Guyana, Jamaica and Trinidad and Tobago have largely eliminated their NTBs and foreign exchange licensing requirements.

In most Commonwealth Caribbean countries, NTBs are still common. The World Bank has identified 43 in Barbados, 26 in Belize and significant numbers in the OECS (from which other OECS members, but not CARICOM members per se, may be exempt) (World Bank 1994a). Barbados, Belize and the OECS countries still use marketing boards with import monopolies, often for foodstuffs. In Dominica and Grenada the profits from these are used to subsidise exports or export-related activities (World Bank 1994a). The CARICOM itself has organised an NTB system – the Oils and Fats Agreement (OFA). This requires the countries in deficit in these products, Barbados, Jamaica and Trinidad and Tobago, to buy them from the surplus countries, i.e. the eastern Caribbean states, at prices significantly above world levels. Clearly, most of these NTBs and export subsidies are inconsistent with the UR Final Act and will gradually have to be phased out.

The decline in the share of intra-CARICOM trade is associated with the series of economic crises, and policy responses, which have damaged the import capacity of the larger states. Intra-CARICOM trade largely took the form of bilateral links between the smaller and the larger islands, rather than among the former or the

latter. These links were damaged by external balance crises and austerity measures in Jamaica, Guyana, Barbados and Trinidad and Tobago. There have been some other specific trade policy-related factors, such as the rice shipped to Jamaica under PL480, which subsidises US export sales of agricultural surpluses, edging out rice imports from Guyana.

With recovery and economic stabilisation in the larger Commonwealth Caribbean countries, one would have expected some recovery in intra-CARICOM trade but at least by 1992, as a proportion of total trade, it was still well down on 1982 levels. There is perhaps an unwillingness to make the effort to build up intra-CARICOM trading links when the OECD markets are in general more predictable.

The agreement with Venezuela provides for tariff-free entry of a range of CARICOM products into Venezuela for a period of five years. The arrangement establishes one-way tariff preferences. The arrangement with Colombia is broadly similar but includes some of reciprocity – which is at variance with the Lomé Convention which states that no country should have access to ACP markets preferential to that of the EU, an issue which has not so far apparently led to any reaction on the EU's part.

The share of CARICOM exports going to Venezuela and Colombia in 1990 was 1.2 per cent. If the shares going to the non-CARICOM islands and Central American countries are added, it would reach a total Caribbean market

of about 23 per cent⁵. In terms of share, this is significant. The question is whether the development of this trade through the establishment of a customs union, the harmonisation of standards and other measures to reduce non-tariff barriers, in conjunction with continued participation in the Lomé Convention, can add up to a viable alternative to membership of NAFTA.

For a customs union to be justified on economic welfare grounds, it must create trade rather than divert it to other member states. Trade creation requires that there be complementarity in exports, or potential exports, among the member states. Table 6 gives conventional correlation coefficients of trade shares among several groups, the larger CARICOM countries, the major Caribbean exporters outside CARICOM (Colombia and Venezuela) with which CARICOM has already reached preferential trade agreements, the countries of Central America, which would be eligible for membership of an ACS trading bloc, Mexico and Canada, the new privileged competitors on the US market, and the other Caribbean countries. The last group is dominated by Cuba, the Dominican Republic, Haiti, French Guiana and the Netherlands Antilles. Neither the Bahamas nor the Windward Islands (Antigua and Barbuda, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines) were included.

Appendix Table 5 gives rank correlation coefficients. The results support the view that CARICOM's exports overlap substantially with those of the other Caribbean countries, to some extent with those of Colombia and Venezuela, less with the exports of Mexico and Central America and, not surprisingly, least of all with Canada. The correlation coefficient between CARICOM and Central American exports would be higher, because of banana exports, if the Windward Islands had been included in the analysis.

These results largely conform with expectations, as do some of the individual country correlations. However, with the weight of clothing and bauxite/alumina in Jamaica's exports it is

surprising that its export structure does not correlate more highly with that of Mexico. Indeed, overall, these results suggest that Canada has as much to fear from Mexican competition on the US market as have the CARICOM countries, while the non-CARICOM Caribbean has more to fear than either. The Bahamas are clearly competing with Mexico as regards oil products.

As regards the formation of an ACS trading bloc, the results are not very encouraging. There is clearly considerable overlap in the export mix of CARICOM, Venezuela and Colombia and the non-CARICOM Caribbean. This is not surprising. The export mix of the Central American countries generally shows less overlap. Finally the figures suggest some complementarity between Central America, Colombia and Venezuela, Mexico and Canada. Neither of the Caribbean groups fits in very easily.

Calculations of similarity in export structure tend to raise more questions than they answer. Apart from all the technical problems of the appropriate degree of disaggregation and the optimal correlation statistic, trade liberalisation and trade preferences generate changes in specialisation. The export structure of developing countries is particularly fluid. What has happened in the past is mainly relevant as a guide to the potential for change in the future.

A common set of natural resources, similar shortages of skills and managerial expertise, are unfavourable factors for the establishment of a trading bloc. The many experiments with regional blocs in Sub-Saharan Africa have consistently disappointed. Yet in many of the Caribbean countries industrialisation is taking place. That may be the key to a differentiated export mix among member states which is one condition for a successful customs union (or, more generally, for a successful free-trade area). The other condition is that trade creation outweigh trade diversion. There can be no overall gain in welfare if the negative effects of imports being diverted from a lower cost supplier to a higher cost supplier outweigh the gains from trade creation.