

PUB 7207

A WORLD BANK COUNTRY STUDY

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The Caribbean

Export Preferences and Performance

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The World Bank
Washington, D.C., U.S.A.

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1818 H Street, N.W.
Washington, D.C. 20433, U.S.A.

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First printing September 1988

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Library of Congress Cataloging-in-Publication Data

International Bank for Reconstruction and Development.
The Caribbean : export preferences and performance.
p. cm. -- (World Bank country study)
ISBN 0-8213-1128-X
1. Exports--Caribbean Area. I. Title. II. Series.
HF3312.I58 1988
382'.6'09729--dc19

88-25197
CIP

PREFACE

This report on Caribbean export preferences was originally prepared for the use of the developed and developing country members of the Caribbean Group for Cooperation in Economic Development (CGCED). It has proved useful enough for many of them to commend it to a wider audience.

We began this work in an effort to analyze the reasons behind the limited growth of Caribbean exports, particularly when the area benefits from so many preferential trade arrangements, particularly from the United States, Canada, and the European Communities. We found, on analyzing the details, that this performance was not below average when the Caribbean's high proportion of primary commodity exports -- subjected to low prices and volume constraints during the 1980s -- are omitted. Moreover, some of the preferential schemes offer very little preferences to CGCED; the three major markets offer very low or zero tariffs to most other developing countries as well. Yet when the preferences are both significant and well-designed, and -- perhaps most important -- when the exchange rate and investment climate are appropriate, the Caribbean has shown the capacity to accelerate some exports. The report is replete with suggestions on how both the developed and developing country members of the CGCED can accelerate their trade.

We also believe this report is timely. The United States is now reconsidering its sugar policies and Canada is reviewing the performance of its CARIBCAN scheme. The European Communities are deciding how to link their ACP obligations with a desire to create a truly unified market by 1992. Many CGCED developing country members are in the process of adjusting their economies to improve their export, income, and employment prospects. It is our hope that this study will assist all these countries -- and their Governments, workers, businessmen, and consumers -- in undertaking these changes.

Stanley Fischer
Vice President Development Economics
and Chief Economist

ABBREVIATIONS AND ACRONYMS

ACP	African, Caribbean, and Pacific (Countries); the EC's preferential trade scheme for selected developing countries
BPT	British Preferential Tariff
CARIBCAN	Canada's Preferential Trade Scheme for the Commonwealth Caribbean
CBI	Caribbean Basin Initiative
CGCED	Caribbean Group for Cooperation in Economic Development
EC	European Communities
EPZ	Export Processing Zone
GATT	General Agreement on Tariffs and Trade
GPT	General Preferential Tariff
GSP	General System of Preferences
LDC	Less Developed Country
MFA	Multifiber Arrangement
MFG	Manufactured, as in "MFG Exports"
MFN	Most Favored Nation
REER	Real Export-Weighted Exchange Rate
WITASS	West Indies Trans-Atlantic Steamship Lines

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This report was produced by Junichi Goto, Paula Holmes and Paul Meo (Bank staff) with the assistance of Christopher Stevens and Douglas Adkins (Consultants). Part of the financing for the report came from the UNDP. The assistance of Canadian, US, and European Communities' officials is gratefully acknowledged.

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SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

Developing country members of the Caribbean Group for Cooperation in Economic Development (CGCED) receive substantial trade preferences. First, they are included in most developed countries' Generalized System of Preferences (GSP), through which they (and many other developing countries) face lower than normal tariff rates on many products which they export to developed countries. Second, in the United States, European Communities, and Canada, they receive additional tariff preferences that go beyond what some other developing countries receive. These preferences are part of the EC's Lome Convention, the U.S. Caribbean Basin Initiative (CBI), and Canada's CARIBCAN. Since the non-fuel imports of these three major markets combined grew by an average of 5% annually (in nominal dollars) from 1980 to 1986, and accounted for almost three-fourths of the world's imports in 1986, any preference they give to particular exporters can be an important factor in the expansion of exports.

In spite of these preferences, the Caribbean had a less dynamic growth of exports from 1980 through 1986 than either world or developing country averages. This report, prepared for the 1988 meeting of the CGCED, examines how some of the major trade policies in the U.S., EC, and Canada affected CGCED members. In particular, it reviews the export performance of the CGCED, analyzes the effect of trade preference arrangements, pinpoints some of the reasons that export growth has lagged, and suggests ways for the importing and exporting countries to improve Caribbean export prospects.

Export Trends

From 1980 to 1986, the U.S. dollar value of world trade did not rise. Major declines in the prices of petroleum and other nonfuel primary products were approximately offset by the growth of manufactures trade. Against this backdrop of stagnant world trade, the U.S.-EC-Canadian markets combined were more buoyant. They grew by an average of 2.4% annually, primarily due to substantial increases in U.S. imports of manufactured goods.

The developing countries' exports of nonfuel merchandise to these three markets grew at an average rate of 6% per year, a rate sufficient for them to capture a larger share of the markets.^{1/} Unfortunately, the nonfuel export growth rate of the CGCED lagged behind the developing country average--it was only 1.5% annually. This resulted in their losing approximately 20% of

1/ Data on developing countries in this report includes all countries except the following: Albania, Australia, Austria, Bulgaria, Canada, Cuba, Czechoslovakia, Democratic Peoples Republic of Korea, Democratic Republic of Germany, European Communities, Finland, Iceland, Japan, Korea, Kuwait, Libya, Mongolia, New Zealand, Norway, Qatar, Saudi Arabia, Sweden, Switzerland, Union of the Soviet Socialist Republics, United Arab Emirates, United States, and Viet Nam. These countries are excluded either due to their status as industrial countries or high income oil exporters, or due to lack of available data.

their market share between 1980 and 1986. If CGCED exports to the US-EC-Canada had kept pace with the growth rate of LDC exports to those markets, an additional \$1.7 billion in export earnings would have accrued to the Group during 1980-1986. The low growth rate, however, had an external cause -- severe declines in the value of the Caribbean's primary exports, which accounted for 70% of their export earnings in 1980, a share well above the LDC average. CGCED manufactured exports were far more buoyant, increasing in value at an 11% annual average.

The export patterns for the CGCED members varied. Out of the fifteen members, only five had positive growth rates in the value of exports to the U.S.-EC-Canada markets: the Bahamas, the Dominican Republic, Haiti, St. Kitts and Nevis, and Trinidad and Tobago. Unfortunately, every Caribbean member experienced significant price declines in their exports. This was due solely to declining primary product prices; for every CGCED member the prices of its manufactured exports increased, compensating for some of the primary export losses.

The Markets

The United States is the largest trading partner of the Caribbean countries, purchasing over 60% of their exports during 1980-1986. The three most important changes in US trade policy since 1980 were the Caribbean Basin Initiative (CBI), the sugar import quotas, and the extension of the Multifiber Arrangement (MFA IV). Another program -- not so new -- had a major impact in the 1980's. This is the 807 program, which encourages production sharing.

Beginning in 1984, the CBI granted duty-free treatment to most CGCED members' products (except for those from Guyana and Suriname) for a twelve year period. Most commodities exported by the CGCED members were already receiving duty-free treatment under the U.S. Generalized System of Preferences. The few new items of importance to the Caribbean which did become duty free under the CBI, however, grew at an annual rate of more than 30%.

In 1982, the U.S. reimposed sugar quotas, after a few years hiatus. These quotas had reduced imports from all sources to about 1 million tons in 1987, compared to non-quota imports of about 5 million tons in 1980. This has had a greater impact on the Caribbean countries, especially the Dominican Republic, than on other suppliers because of the relatively larger importance of sugar exports to the Caribbean. By 1987, the foregone exports from the CGCED sugar exporters had reached \$250-\$300 million yearly compared to 1980.

Over one-third of the manufactured exports from the CGCED in 1986 were clothing; these have been growing at a faster rate than total U.S. imports of clothing. This may be due to the interplay of two apparently conflicting trade policies -- the MFA, which is an import-restricting policy, and the 807 program, an import-permitting policy. In general, the MFA has not been binding on CGCED countries; in other words, those few CGCED countries that have agreements limiting their clothing exports to the U.S. have not filled their quotas. Since most East Asian suppliers almost always have found their quotas binding, there may be a spillover effect benefitting the

Caribbean -- demand exceeding what the East Asian traditional clothing exporters are able to supply the U.S. market is likely being filled from the Caribbean.

The 807 program of the U.S. allows duty free entry on that portion of a finished product which is a U.S. component. For some Caribbean countries, a large assembly industry has developed, particularly in Free Zone (also called Export Processing Zone) areas. The 807 exports of the Dominican Republic, Haiti, and Jamaica, for example, have increased by more than 20% every year since 1980; most of it is clothing cut and sewn from U.S. fabric. In 1986, a new preferential program, "super 807", was introduced. This is only for CBI-eligible countries with whom the U.S. has negotiated textile and clothing bilateral agreements. The "super 807" guarantees access for clothing assembled in the Caribbean without regard to quota levels, but only if the clothing is made entirely of U.S. materials. This should enhance the viability of the clothing industry in the Free Zones as well as ensure that clothing quotas in the U.S. are less restrictive on the Caribbean.

The European Communities' market for non-fuel imports from all sources grew by an average of about 2% annually since 1980. Imports from the CGCED, however, declined by about the same rate. This reflects the high proportion that primary commodities have in exports to the EC, as well as its concentration in only a few products. Since 1980, over half the imports from the CGCED were bauxite and alumina, sugar, and bananas. Manufactures accounted for only one-fifth of CGCED exports and grew by about 2% annually.

All CGCED members except the Dominican Republic and Haiti are members of the EC's Lome Convention. Both were recently granted observer status, and Haiti gets Least Developed Country status under the EC's GSP. This means that all CGCED countries except the Dominican Republic get duty-free treatment for most exports. Because of the limited manufactured exports and wide inclusion of other developing countries in the Lome Convention, these preferences have had relatively little value for the Caribbean. Much more important to the CGCED are the Convention's commodity provisions, such as the Sugar and Banana Protocols. In total, the commodity arrangements led to a net transfer of about \$1 billion to those CGCED countries which were Lome Convention members from 1980 to 1987. While these arrangements have had a major impact on income and welfare in some CGCED countries, they have occasionally led to market distortions due to the artificial prices and fixed quotas inherent to the system.

The slight growth in manufactures stemmed from simple chemicals, ferronickel, and some electronics and clothing. Trinidad and Tobago's exports of manufactures had an impressive 20% annual growth, due to methanol, ammonia, urea, and steel exports, all highly capital and energy intensive. In light of the significantly increased imports from Trinidad and Tobago, two antidumping cases were filed against it by EC producers in the 1980s -- the first on steel wire rods, which was eventually terminated, and the second on urea, which ultimately resulted in an undertaking by Trinidad and Tobago to restrain its exports to the EC.

During the 1980's, only 6% of the CGCED's exports to the three markets went to Canada. At the same time, however, the Canadian market became relatively more important because of its growth rate of almost 10% annually for the CGCED's nonfuel merchandise. Over 60% of this growth, however, came from the recovery of ferronickel and alumina exports as Canadian-owned mining firms recovered from a depressed market.

CGCED members have been eligible for Canada's General Preferential Tariff since its inception in 1974, which gives duty free treatment to many items from developing countries. In 1986, a new preferential program called CARIBCAN was put into place. This gives duty free treatment for most imports to all CGCED countries except the Dominican Republic, Suriname, and Haiti. Unfortunately, as in the U.S. CBI, textiles and clothing, footwear, luggage, and a few other products were excluded from CARIBCAN. This program will probably not have much impact on CGCED exports to Canada since prior to its inception, 93% of these exports faced no tariffs in the Canadian market.

It is not likely that Canada's import regime has restricted trade with the CGCED. The only items which may be somewhat restricted are shoes and rum. There is currently a global quota on one type of shoe, but this is scheduled to expire during 1988. There are also restrictions on the way rum is imported, blended, bottled, and labelled which have caused marketing problems, but these are also expected to be changed in 1988. There are no other quotas on products, including textiles and clothing.

CGCED - THE EXPORTERS

The competitiveness of any exporter is determined by the interplay of external market factors and internal factors. These latter include exchange rates, wages and productivity, transport, and infrastructure.

Most CGCED members peg their currencies to the U.S. dollar, which appreciated relative to European currencies until 1986. This resulted in a general deterioration of their export competitiveness. In markets other than the U.S., this was reflected in declines in profit levels and lack of diversification of exports. In the U.S., there was increased competition from exporting countries whose exchange rates did not appreciate at the same rate as the CGCED countries. The depreciation of the U.S. dollar since 1986, however, has reversed this pattern of decline in Caribbean competitiveness. The two largest CGCED members, Jamaica and the Dominican Republic, were exceptions -- having experienced slower than CGCED-average export growth, Jamaica devalued its currency during 1983-1985; the Dominican Republic devalued in 1985. From 1984 to 1986, their price-sensitive exports grew almost five times faster than before the devaluations.

Although wages in CGCED manufacturing sectors are generally not competitive with low-wage Asian manufacturers, particularly those in the Philippines and China, wage rates in the larger CGCED countries do compare favorably with Western Hemisphere competitors such as Mexico, Costa Rica, and Guatemala. Some smaller countries have wage rates as high as the East Asian

exporters, and are obviously less competitive. Unfortunately, preliminary indications are that productivity per worker may be declining in some CGCED countries, which may offset savings in location and wage rates. More important for some CGCED countries may have been political turmoil and excessive labor militancy, which had a great impact on the business climate.

As far as the infrastructure requirements for exporting, it has been improving in some of the CGCED countries. Efficient container transshipment ports exist which allow several Caribbean locations to take advantage of the hub-and-spoke economies of the vessel systems; ocean transport rates are now competitive for Jamaica, at least to the US; export processing zones, particularly in Jamaica and the Dominican Republic, have played an important, successful role in increasing manufactures exports. Probably the most serious deficiency in the Caribbean is the high cost of electricity and frequent power outages in some countries.

CONCLUSIONS AND RECOMMENDATIONS

The conclusions of this report are straightforward. First, although Caribbean nonprimary exports grew at the average rate for all developing countries, much of the Caribbean's poor total export performance stems from low commodity prices and some import constraints. Both affected primary exports adversely, particularly sugar. No single U.S. trade action has been as critical for most CGCED countries as the reduction of the U.S. sugar quotas, which have reduced the CGCED members' export earnings by at least \$250 million a year. This seems inconsistent with other U.S. policies aimed at assisting the Caribbean. Furthermore, the existence of quota systems in highly subsidized EC sugar and banana markets encourages producers to produce whether they are efficient or not. Since some CGCED members are internationally competitive in these products, the quotas could be distributed more consistently with comparative advantage. This would also encourage product diversification, and lessen economic dependence on a few primary export commodities. Although the EC's sugar and UK's banana preferences have been stable and lucrative for some CGCED countries, some commodity subsidies have distorted small economies and have led inefficient producers to reexport import products just to gain the subsidy. Both importing and exporting countries would benefit if these were gradually replaced by development aid; until that time, some small exporting countries might consider temporary export taxes to reduce the resource misallocation.

Second, the fairly generous GSP schemes of the Caribbean's major markets make it difficult for these importers to offer major, additional preferences for the Caribbean's manufactured exports. The U.S. CBI, for example, extends a preference to the Caribbean beyond the U.S. GSP in very few products exported by the CGCED countries. In some of those products, however, the Caribbean has done very well since the preferences are quite significant. Canada's CARIBCAN suffers from a similar constraint, so it is unlikely to have a significant effect on their manufactured imports from the Caribbean. The EC does not have a totally zero-tariff GSP, so it offers all but the Dominican Republic (also excluded from CARIBCAN) zero tariffs via its

Lome Convention and Least Developed Country preferential schemes; but these seem to have had little impact on Caribbean exports of manufactures to the EC. The success of the U.S. 807 program may point to the need for a supply-production-marketing link. Production sharing seems particularly apt for the Caribbean, and the reasons for this (overcoming production and market problems) probably explain why the EC receives so little manufactured exports from the CGCED. It would probably be worthwhile for the EC and Canada to investigate initiating a program similar to the U.S. 807.

It would also benefit the Caribbean if the major markets were to offer greater access for imports of highly protected sectors currently excluded from their preference systems, i.e., textiles and clothing. Importers might also reconsider the growing use of unfair trade case actions against countries so small that it is unlikely their exports are the cause of material injury to industries in these large importing countries.

Perhaps far more important, however, are the policies of the Caribbean countries themselves. Most important is a competitive real exchange rate, attractive for a wide variety of exporters. Some CGCED countries so small that their only option is to peg their currency to a world currency, yet this presumes they must have very flexible policies if they are to avoid exacerbating the shifts in international prices and exchange rates. These economies would benefit from more prudent demand management -- such as conservative and monetary policies, and wage restraint -- and by removing domestic distortions that impede adjustment to changing external prices. The larger CGCED economies must maintain a flexible approach to nominal exchange rate adjustments to ensure the attractive real exchange rate vital for greater export success. Finally, the CGCED must provide a better investment environment. While infrastructure bottlenecks do not seem to be the general reason retarding export-led growth, the investment and productivity climate in some countries has likely been a significant constraint.

I. INTRODUCTION

The countries of the Caribbean region benefit from a number of preferential trade arrangements. In addition to the industrialized countries' General Systems of Preferences (GSP) which are applicable to most developing countries, there are some very special arrangements formulated to promote exports from the Caribbean countries -- the Caribbean Basin Initiative (CBI) of the United States, CARIBCAN of Canada, and the much older Lome Conventions of the European Communities, which includes the Caribbean as well as most African and some Pacific countries. Yet, in spite of this preferential treatment, the Caribbean export performance has been worse than the performance of the developing countries as a whole.

In view of the above, this report examines the Caribbean export performance in the 1980s in some detail, analyzes the possible reasons behind this performance, and presents some recommendations to improve it. The scope of the analysis in this report is limited to the member countries of the Caribbean Group for Cooperation in Economic Development (CGCED): Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St. Kitts-Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago. Because of this choice, some islands, of which Cuba is the largest, are excluded and some inland countries, e.g., Belize, Guyana, and Suriname, are included in the analysis. Further, some of the beneficiaries of the preferential schemes--Central America for the CBI and some African and Pacific countries for the Lome Convention--are excluded from the analysis.

Some of these preferential arrangements have been studied before. Analyses of the full Lomé Conventions are many; the performance of the CBI is studied yearly by the US International Trade Commission. CARICOM has also reviewed these trade arrangements. Some of these studies, however, have a global viewpoint; this is understandable since both the Lome Convention and the Generalized System of Preferences have global perspectives. Others examine the impact of the preferential arrangements on the importing country. Most examine each arrangement in isolation. This report not only has a Caribbean perspective, it examines all three major arrangements -- the CBI, CARIBCAN, and Lome Convention in the environment of both groups and specific exporters in the three different markets. In this way, the greatly varying performances can lead to insights on export performance and ways to improve it.

This report is clearly an introductory one; no short report, prepared to be read by participants at an international conference can do justice to the many detailed challenges specific exporting countries and products confront. The many details of import regimes, the myriad of measures affecting product quality, standards, and safety, and the complex web of relations between producers, exporters, importers, wholesalers, retailers and consumer mean any short report will leave some important details obscured. There are many ways Caribbean exports can be accelerated that will neither be mentioned nor analyzed in this report. Like all efforts to improve

development prospects, this report will be only a partial analysis with partial, if specific suggestions. The Bank, the Caribbean countries, and their importing partners still have much to analyze and adjust.

II. RECENT PERFORMANCE OF CARIBBEAN EXPORTS

A. Overall Trends

From 1980 through 1986, the average annual growth rate (in US dollars) of world trade was less than one percent.^{1/} This stagnation, was caused by major declines in the prices of petroleum and other primary products. Indeed, if manufactures had not grown significantly, world trade would have declined. As Table II.1 shows, the volume of trade in all broad categories grew faster than the value as prices fell.

Table II.1: AVERAGE YEARLY GROWTH RATES OF WORLD TRADE, 1980-1986
(percent)

	<u>Value</u>	<u>Volume</u>
All merchandise	0.4	2.7
Primary products	- 1.5	0.7
Manufactures	4.5	6.9
Fuel	-10.8	-8.8
All trade less fuel	3.1	5.4

Source: Appendix Table 1.

Since there is a strong negative bias if fuel is included in the analysis, and only The Bahamas (which refines imported oil) and Trinidad and Tobago are fuel exporters, our subsequent analysis proceeds net of fuel unless otherwise indicated.

World trade in the 1980s has been marked by other important characteristics:

- o Increased trade in manufactures. By 1986 over half of world trade was in manufactures; 80% if fuel is excluded. Part of this relative shift, however, reflected the general deterioration of primary product prices.
- o The US-EC-Canada share of world imports grew from 64% in 1980 to 72% by 1986 in value, mostly due to an average yearly increase of 15% for US imports of manufactures.

^{1/} All values in this report are in US dollars.

As Table II.2 indicates, imports from LDCs compare relatively favorably with these world trends. Their share of world trade increased from 19% in 1980 to 20% in 1986.

Table II.2: AVERAGE YEARLY GROWTH RATES OF NONFUEL IMPORTS, 1980-1986
(percent)

Importer:	Value			Volume		
	World	LDCs	CGCED	World	LDCs	CGCED
World	3.1	4.0	-0.1	5.4	6.4	4.4
US,EC,Canada	5.2	6.0	1.5	6.8	7.4	6.0
US	12.6	11.4	2.6	13.4	12.3	5.7
EC	2.2	1.1	-1.9	4.4	3.2	5.0
Canada	6.9	11.2	9.6	6.0	10.3	16.6

Source: Appendix Tables 2, 3 and 4.

Unfortunately, except in the case of Canada, the growth of imports from the Caribbean to the three markets equals neither the increase in world trade nor the imports from the LDCs as a group. While the Canadian market is becoming more important to the Caribbean because of its growth, only 6% of the Group's exports to the three markets went to Canada in 1986; almost half of it from Jamaica. In spite of the relatively slow increase in the total exports to the US-EC-Canada markets, however, there was a very impressive growth rate for manufactured exports. The Caribbean's primary exports declined much more than did those of overall world or LDC trade. The two varying sectoral growth rates produced a major shift in the composition of CGCED exports to the world-- manufactures went from 30% in 1980 to 51% in 1986.

Table II.3: GROWTH OF VALUE OF SECTORAL TRADE, 1980-1986
(percent)

Importer:	World		LDCs		CGCED	
	Mfg	Primary	Mfg	Primary	Mfg	Primary
World	4.5	-1.5	8.4	-1.8	8.9	-5.7
US-EC-Canada	6.9	-0.3	10.7	-0.9	11.1	-4.5
US	14.8	2.7	15.7	1.3	12.7	-7.0
EC	3.4	-1.1	4.3	-2.1	2.1	-2.9
Canada	7.9	0.7	16.1	1.7	18.6	6.8

Source: Appendix Tables 2, 3 and 4.

Because of the severe decline of primary exports, the Caribbean's share of the US-EC-Canada imports was reduced by approximately 20%, to just over a third of 1 percent. The loss was most severe in the US market.

Ironically, a part of the world which in theory was to receive a strong export impetus from major importing nations has lost, not gained, market share in these markets. If CGCED exports to the US-EC-Canada had kept pace with the growth rate of LDC exports to those markets, an additional \$1.7 billion in export earnings would have accrued to the Group during 1980-1986. Since the growth rate of CGCED manufactures exports to the US-EC-Canada was approximately the same as manufactures exports from LDCs, this "loss" of \$1.7 billion fell to the primary products exports sector.

The Caribbean's manufactured exports were far more buoyant, although at first glance they also appear to have grown about one fifth slower during 1980-86 than the developing country average. Nevertheless, much of the outstanding success of developing country manufactured exports is owed to four East Asian exporters -- Korea, Hong Kong, China, and its province of Taiwan. When these are omitted, the CGCED manufactured exports to the three major markets grew faster in both volume and value than those of the rest of the developing countries.

Table II.4: GROWTH OF CGCED MANUFACTURED EXPORTS TO THE
US, EC, and CANADA, 1980-86
(percent per year)

	US-EC-Canada		US		EC		Canada	
	Value	Volume	Value	Volume	Value	Volume	Value	Volume
<u>Exporter:</u>								
All LDCs	10.7	12.1	15.7	16.6	4.3	6.6	16.1	15.2
CGCED	11.1	10.2	12.7	11.7	2.1	1.2	18.6	17.6
East Asian Four	14.1	15.3	18.6	19.5	5.6	7.8	15.1	14.2
LDCs minus East Asian Four	7.8	9.3	12.3	13.2	3.7	5.9	18.2	17.2

Source: UN Trade Statistics

Although overall manufactures export growth was thus positive for the Group and primary export growth was negative, individual countries' export patterns varied. In the following section, the diversity of export composition and performance of individual countries is examined.

B. Selected Trends

Out of the fifteen CGCED countries, only five had positive growth rates in the US dollar value of their exports to the US-EC-Canada markets combined: The Bahamas, Dominican Republic, Haiti, St. Kitts and Nevis, and Trinidad-Tobago. All countries except Suriname, however, had positive growth rates in the volume of their exports. Unfortunately, all fifteen countries experienced average unit price declines for their total exports. This meant that all CGCED countries had to export more goods over time to earn the same level of income. This was due solely to declining primary product prices. Fortunately for every CGCED member the prices of their manufactured exports increased, compensating for some of the primary sectors' losses.

Dominican Republic

Some country-market pairs illustrate the varying export performance. The Dominican Republic's experience is very typical of the CGCED country average.

Exports of manufactured products to the US, which imported about 90% of the Dominican Republic's total nonfuel merchandise exports to the three markets (US-EC-Canada), increased by 14.7% yearly while primary exports to the US fell by 1.4% yearly. This shifted the composition of exports drastically; in 1980 37% of exports to the US were manufactures; by 1986 they accounted for 58%. The increased manufactured exports were mostly clothing -- which grew from 30% of manufactured exports in 1980 to 45% in 1986 -- and jewellery, which went from virtually nil to 10% of manufactures. These two exports grew at annual rates of 22% and 118% respectively during 1980-86.

The most important loss in primary products earnings was in sugar, which dropped from almost 50% to 27% of primary commodity earnings from 1980 to 1986, an average annual decline of over 10%. Fortunately part of this loss was offset by increased exports of meat, coffee, cocoa, and cigars.

In sum, whether measured by changes in value or quantity, US demand for four important Dominican exports -- coffee, cigars, clothing and jewelry -- experienced a growth that outstripped the change in demand from the world and from all LDCs. Meat and cocoa exports grew in volume as well, although their prices fell. Nevertheless, even in these cases, the price decline was less than that of similar US imports from other countries. For sugar, the losses were severe in both value and quantity terms. (US sugar is discussed in more detail in Chapter III).

The Dominican Republic's experience in the European Communities reveals the importance of a strong manufactured export performance. From 1980 to 1986, the amount of merchandise imported by the EC from the Dominican Republic declined by an average of 1% each year. While its primary exports suffered a yearly decline of 7.3%, manufactured exports grew only 1.6% per annum. Since the latter comprised more than three-fourths of the Dominican Republic's exports to the EC by 1986, the poor growth of manufactured exports led to poor overall export growth. In Canada, by contrast, three-fourths of the 1986 imports from the Dominican Republic were still primary products, in

spite of faster growth of manufactured products. In fact, the growth rates of imports of both primary and manufactured products were higher than the US or the EC. Coffee, which accounted for approximately 60% of the Dominican Republic's total earnings in Canada, increased by 7% annually; shipments of ferronickel, (from the Canadian-owned Falconbridge plant), increased by almost 150% each year and accounted for over 20% of export earnings in 1986. Interestingly enough, neither coffee nor ferronickel has any special preference in Canada; their growth owed more to a Canadian investment -- and its recovery from a late 1970's virtual closure -- and improved marketing.

Barbados - EC

Barbados illustrates both the opportunities and the difficulties faced by the CGCED countries in developing exports to the EC. In the 1970s and early 1980s Barbados' exports of manufactures to the EC increased quite rapidly. By 1982, sugar's share of nonfuel merchandise exports to the EC had fallen to 65% compared to 80% in 1975. Electrical condensers, automatic data processing equipment and garments emerged as significant, if still small, exports. Manufactures increased their share of non-fuel merchandise exports to 26% by 1982, up from 15% in 1975.

Since the early 1980s, however, this trend has been reversed. Barbados experienced a fall in the value of its nonfuel merchandise exports to the EC of 9.4% yearly over 1980-86. This was one of the sharpest falls experienced by any of the countries of the region. Part of the fall results simply from the fact that 1980 was particularly good for sugar exports to the EC, but there was also an underlying downward trend both for other primary exports and for manufactures.

Despite the Government's commitment to the sector and the success of the 1970s, Barbados' manufactured exports to the EC have grown far slower than those of the rest of the region. The US dollar value of manufactured exports to the EC was lower in 1986 than in 1980 even when account is taken of the appreciation of the Barbados dollar (which is pegged to the US dollar) against the ecu. The decline was sharpened by major drops in data processing equipment after 1980 and women's clothing after 1982, but most items also showed a downward trend; even exports of rum (not classified as a manufactured good in this study) declined steadily to 1985.

Restrictions in EC trade policy have not been primarily responsible; the decline reflects a wider problem facing Barbados' manufacturing sector as a whole, exacerbated by the difficulties in sugar production. An example is the closure of the Intel plant, which was not only the largest private industrial employer but also epitomised Barbados' thrust to export high technology goods. One major problem facing all exports has been the appreciation of the Barbados dollar (see Chapter IV).

Another contributory factor has been the escalation of labor costs, an important contributory factor to the decline of the sugar industry. Production costs in sugar have been estimated at US\$0.28 per pound in 1985, higher even than the price for EC Protocol sugar of some US\$0.18 per pound. Problems have also been experienced in the quality of management.

External shocks have also played an important part. The electronics industry was badly affected by the global glut of semiconductors, the prime reason for the Intel closure. Disruptions to intra-Caribbean trade, especially exports to Trinidad, have also had an adverse effect on the profitability of the manufacturing sectors. As a marginal market for manufactures (relative to the Caribbean and North America), EC imports are especially sensitive to events in Barbados' other major markets. This point also holds for most other CGCED states.

Jamaica-Canada

Jamaica is the largest single supplier of merchandise from the CGCED countries to Canada. During the 1980's, approximately half of the total CGCED export earnings of \$1.3 billion from Canada came from Jamaica. Almost all of the earnings by Jamaica, however, were from exports of alumina; most of it from the Canadian-owned Aluminum Company of Canada (Alcan). In 1986, this company and the Canadian-owned Falconbridge ferro-nickel company, located in the Dominican Republic accounted for over 42 percent of total CGCED export earnings in Canada.

During 1980-86 the US dollar value of Jamaica's exports to the US-EC-Canadian markets declined by an average of 2.6% per year. Exports to the US declined 5% yearly; to the EC 4.3% yearly. The total decline would thus have been worse if Jamaica's exports to Canada had not grown so rapidly, by a 16.6% yearly average. In 1980, Canada bought only about 6% of Jamaica's exports to the US-EC-Canadian markets. By 1986, this had increased to almost 18%.

This export boom, however, was not based on any special preference. Canada extends no preferences for alumina, and the MFN tariff rate is zero. This is merely a case of one multinational company increasing the amount of transfers of a commodity from its plant in one country (Jamaica) to its plant in another country (Canada) rather than sending it to a third country's plant for processing (e.g., the Alcan plant in Kentucky).

III. MAJOR MARKET ISSUES

A. The US Trade Regime

Since it is the largest trading partner of the Caribbean countries, the United States and its trade regime have had important effects on Caribbean exports. The most important changes in the US trade regime in the 1980s were threefold: (i) the Caribbean Basin Initiative (CBI); (ii) the sugar quota; and (iii) the extension of the Multifiber Arrangement (MFA IV). An earlier US program, which permits deduction of custom duties on the US-made inputs of imported products, has also had a major impact in the 1980s.

(1) The Caribbean Basin Initiative (CBI)

The Caribbean Basin Economic Recovery Act, referred to as the Caribbean Basin Initiative (CBI), took effect in January 1984. The CBI grants

duty-free treatment of imports from designated Caribbean Basin countries to the United States for twelve years. 1/

The list of exports which benefit from CBI duty-free treatment is not very long because a large number of commodities are already exported to the United States under the US General System of Preference (GSP) which grants duty-free treatment to designated imports.

The United States' GSP has been extended to the Caribbean countries since the 1970s, well before the CBI was passed. Given their small size, most of the Caribbean countries were little affected by the "threshold" limits of the US GSP scheme, which withdraws a trade preference when the specific export product is either half of US imports or exceeds about \$71.4 million in value (in 1986; in fact the limit is raised each year by nominal growth of US GNP). Unlike Canada or the European Communities, the US GSP provides duty-free access; there is thus no further tariff preference on covered items that one can extend. As a result, the CBI is most effective on products not already in the US GSP scheme. Also, some important commodities, such as textiles and clothing, remain exempted from duty-free treatment under the CBI. Table III.1 shows the trends of the CGCED exports of CBI products, products which are duty-free under the CBI but excluded from the GSP. As the table shows, the share of the exports of the CBI products to the US has more than doubled since 1983. While the CGCED exports of all nonfuel merchandise to the US were relatively stagnant in the 1980s (the annual growth rate was only 2.6 percent), the exports of the CBI products have grown at an annual rate of more than 30 percent. As Table III.2 shows, that rate far exceeded the growth rate of even the most successful exporters -- Hong Kong, Korea, Singapore, and Taiwan, China.

Table III.1: SHARE OF THE CBI PRODUCTS IN CARIBBEAN EXPORTS TO THE US,
1980, 1983, and 1986

	1980		1983		1986	
	Value (\$ mil.)	Share (%)	Value (\$ mil.)	Share (%)	Value (\$ mil.)	Share (%)
CBI Products <u>1/</u>	51.1	2.4	116.0	5.3	276.3	10.9
Non-CBI Products <u>2/</u>	2,121.6	97.6	2,089.8	94.7	2,251.2	89.1
Total	2,172.7	100.0	2,205.8	100.0	2,527.5	100.0

1/ Products which are duty-free under the CBI but dutiable under the GSP.

2/ Nonfuel merchandise only.

Source: UN Trade Statistics and US Department of Commerce.

1/ For details of major provisions of the CBI, see the Appendix.

Table III.2: ANNUAL GROWTH RATE OF VALUE OF EXPORTS TO THE US,
1980-1986
(percent)

	1980-86	1983-86
World	12.6	18.3
LDCs	11.6	15.0
Asian Four 1/	17.3	18.4
CGCED	2.6	4.6
(CBI Products)	(32.5)	(33.5)

1/ Hong Kong, Korea, Singapore, and Taiwan, China.

Source: UN Trade Statistics and US Department of Commerce

Table III.3: CARIBBEAN EXPORT SHARES IN THE US,
1980, 1983, and 1986
(percent)

	Share of US Imports (value)		
	1980	1983	1986
Total CGCED Exports 1/ of which	1.27	1.05	0.73
CBI Products (total)	1.65	3.73	5.07
CBI Products (selected)	1.82	4.26	7.89
beef and veal	0.29	0.86	2.36
rum	96.59	86.27	92.04
tobacco	6.31	7.58	3.33
analgesics etc.	54.23	47.37	58.57
ethyl alcohol	0	0	18.09
steel wire, bars, etc.	0	2.74	3.64
electrical capacitors etc.	4.80	3.69	3.28

1/ Total nonfuel merchandise exports.

Source: See Table III.2.

As mentioned, however, only a few items constitute a major part of the CBI products; more than 90 percent consist of only seven items: beef and

veal, rum, tobacco, certain pharmaceutical products (analgesics etc.), ethyl alcohol (ethanol), steel (and iron) wire and bars, and electrical capacitors. From 1983 to 1986, the export value and share of the US market of these selected items doubled. Exports of beef and veal, pharmaceutical products, ethyl alcohol, and steel and iron products did especially well.

(2) Sugar

From 1934 through 1974, the United States set quotas on sugar production and imports. The high world sugar prices of 1974 led to an end of these programs during 1975 to 1981. In May 1982, however, the US Government decided to reimpose quotas on sugar imports in order to maintain domestic prices. In 1980-81, before the reimposition of sugar quotas, the United States imported about 5 million short tons of sugar annually, but the reduced quota allocation by 1987 had reduced imports to about 1 million short tons.

The US sugar quota has had a greater impact on Caribbean countries than on others. Sugar exports to the US are about 9 times more important for the CGCED countries than for the developing countries as a whole, even after their sugar exports were constrained by the quota.

Table III.4: SHARE OF SUGAR IN NON FUEL EXPORTS TO THE US, 1980-1981 AND 1985-1986
(percent, by value)

Sugar Exports From:	<u>1980-81</u>	<u>1985-86</u>
All countries	1.31	0.33
LDCs	4.58	0.94
CGCED	19.76	8.28

Source: UN Trade Statistics

In spite of the strong US interest in encouraging Caribbean exports, the share of the Caribbean countries in US sugar imports has remained about the same since 1980-81. Nevertheless, some Caribbean countries were affected more than others. By 1987, the Dominican Republic, by far the largest sugar exporter in the region, had lost about 2% of the total US import market and the Caribbean share compared to 1982-83. On the other hand, smaller exporters, such as Barbados, Haiti, St. Kitts and Nevis, and Trinidad and Tobago, increased their share. Still the quotas for Haiti and St. Kitts and Nevis in 1987 (7,500 short tons each) are about half of those of 1982-83, while the quotas for the CGCED as a whole in 1987 are about one-third of those in 1982-83.

Table III.5: COUNTRY SHARE IN US SUGAR QUOTAS, 1982-1987
(percent, by quantity)

	<u>1982/83</u>	<u>1984/85</u>	<u>1987</u>
Barbados	2.97	3.00	3.39
Belize	4.67	4.70	4.53
Dominican Republic 1/	74.64 (17.60)	75.26 (16.70)	72.44 (15.99)
Guyana	5.09	5.13	4.94
Haiti	2.50	2.10	3.39
Jamaica	4.67	4.70	4.53
St. Kitts	2.50	2.10	3.39
Trinidad and Tobago	2.97	2.99	3.39
Total CGCED 1/	100.00 (23.58)	100.00 (22.19)	100.00 (22.08)

1/ The figures in parenthesis are share of total imports.

Source: US Department of Agriculture

Because of reduced quota allocations and price falls, the value of GCCED sugar exports to the US declined by three-quarters, from \$408 million in 1980 to \$93 million in 1987. The impact of the decline in sugar exports to the US was very significant for some Caribbean countries; Table III.6 shows the magnitude of the decline in both quantity and price since 1980. The loss in volume was worth \$305 million at 1980 prices, or \$258 million at 1987 prices (see Appendix Table 11). In sum, the CGCED lost somewhere between \$250 to \$300 million as the US imposed, then reduced quotas, and world prices fell with US and EC domestic subsidies. While not all the price loss can be attributed to the subsidized production of the US and EC, some surely can (Vide, World Development Report 1986). In any event the world price fall led to even more losses. While the impact of the reduced sugar exports on the total exports of all developing countries was not very big, a little more than 1 percent, the loss of sugar receipts was more than 8 percent of total Caribbean exports. Guyana, Barbados, and Belize seem to have been most affected; in Belize, the decline in only the quantity of sugar exports to the US equalled almost a fifth of total 1985-86 exports.

Table III.6: SUGAR EXPORTS TO THE US, 1980 and 1987
(value in \$ thousand, quantity in short tons)

	Shipments with no quota 1980		Shipments under quota 1987		Decline 1980-87 %	
	Value	Qty	Value	Qty	Value	Qty
Barbados	35,187	60,346	3,166	7,538	90	87
Belize	39,143	71,910	4,340	10,333	88	85
Dominican Rep.	254,745	552,968	66,914	159,318	73	70
Guyana	34,455	59,410	4,743	11,294	85	80
Haiti	5,308	9,884	3,056	7,277	41	25
Jamaica	30,179	66,422	4,371	10,408	85	83
St. Kitts-Nevis	8,681	16,430	3,455	8,227	59	47
Trinidad & Tobago	0	0	3,314	7,890	- 1/	- 1/
Total	407,698	837,370	93,359	222,285	76	73

1/ Trinidad & Tobago began shipping sugar (which entered under quota) in 1984. By 1987, the value and quantity declined by 62% and 63% respectively.

Source: UN Trade Statistics (for 1980) and US Department of Agriculture

(3) The Multi-Fiber Arrangement (MFA) and 806-807 Imports

Clothing is one of the most important and fast-growing export items from the Caribbean countries. As Table III.7 shows, the share of textiles and clothing 1/ in manufactured exports from the CGCED countries is now substantially larger than that of the developing countries as a whole. In addition to the large share in CGCED manufacturing exports to the US, the growth rate of clothing exports is also remarkable. While the overall export performance of CGCED countries is below that of the LDC average in the 1980s, the growth rate of textile and clothing exports from the CGCED countries to the US is higher than those of the world and of the LDCs as a whole. And clothing exports have been relatively buoyant worldwide. The growth of

1/ While the MFA and international usage is to combine textiles and clothing for most analytical purposes, the overwhelming part of CGCED textile and clothing exports is clothing, 95 percent in 1986. In view of this, subsequent discussion of "textiles and clothing" will refer only to "clothing".

clothing exports from the Dominican Republic and Jamaica is particularly remarkable.

TABLE III.7: TEXTILES AND CLOTHING EXPORTS TO THE US, 1980 AND 1986
(percent, by value)

	Share in MFG Exports 1980	Annual Growth Rate, 1980-86 1986
World	7.2	8.2
LDC	21.7	22.6
CGCED	27.3	36.8
Barbados	28.0	18.5
Dominican Republic	30.3	45.8
Haiti	35.3	39.0
Jamaica	68.6	71.9

Source: UN Trade Statistics

This rapid growth is partly the result of two apparently conflicting trade programs; the exemption from tariffs for that portion of an imported product using US raw material (sections 806-807 of the Tariff Schedule of the US), and the Multifiber Arrangement (MFA). The MFA has been affected to some degree by the CBI as well. Ironically, the 807 program (virtually all clothing imports fall under section 807) is an import-permitting one, while the MFA is an import-constraining one.

The MFA

The MFA, which began in 1974, was extended until 1991 two years ago. Under the MFA, the United States, Canada, the EC, and other importing countries negotiate bilateral agreements with exporters to restrict their textiles and clothing exports. In the 1980s, the US has had bilateral agreements with four CGCED countries, Barbados, the Dominican Republic, Haiti, and Jamaica.

The MFA has various impacts, both negative and positive, on clothing exports to the US. First, the MFA restrictions on clothing exports would in theory have a quantity-restricting effect. Secondly, the MFA quota may benefit exporting countries through a rent-transfer effect. The scarcity rent caused by the restriction should be, in theory, retained by the exporting country, rather than the importing country. In addition, the MFA might have another important impact; a "spillover" effect. Since the MFA bilateral agreements are negotiated country by country, those exporters subject to fewer restrictions, often the less efficient exporters, might benefit from the more severe restrictions placed on efficient competitors.

In fact, the phenomenal growth of clothing exports to the United States indicates that the MFA is not operative in CGCED countries. Only Haiti and the Dominican Republic were under some constraint from bilateral treaties throughout the 1980s; Barbados and Jamaica have had sporadic constraints. While there was some increase in the Dominican Republic's quota, Haiti's fell. And in both cases actual exports covered by the bilateral agreements of the MFA fell as well (see Table III.8).

Table III.8: US CLOTHING VOLUME IMPORT GROWTH, 1980-86
(annual average, percent)

	MFA Exports to US Quota	MFA Exports to US Actual	Total Clothing Exports to US ^{1/}
Dominican Republic	5.4	-3.1	19.5
Haiti	-3.3	-4.1	8.8
Total of the Above	-0.6	-3.7	15.3

1/ Volume estimate made by deflating value data with
clothing price index.

Source: US Department of Commerce and UN Trade Statistics

In fact, however, few of the CGCED countries' clothing exports are covered by the MFA, so that in the cases of both Haiti and the Dominican Republic, their actual total clothing exports to the United States grew rapidly in volume throughout the 1980s. The porosity of the MFA in the Caribbean also explains why the Caribbean's quotas are often so underfilled while China, Hong Kong, and Korea continually fill 80 to 95 percent of their MFA quotas.

**TABLE III.9: THE UTILIZATION RATIO OF THE US TEXTILE QUOTAS
UNDER THE MFA BILATERAL AGREEMENTS, 1984 AND 1986
(percent)**

	Utilization Ratio 1984	1986
China	96.3	99.0
Hong Kong	84.2	N.A.
Korea	92.6	N.A.
Taiwan, China	89.6	N.A.
Mexico	34.9	71.1
Barbados	34.4	1/
Dominican Republic	63.2	58.1
Haiti	17.6	42.4

1/ No MFA quota was imposed on Barbados in 1986.

Source: US Department of Commerce

Unlike the Asian clothing exporters, Caribbean exporters have a variety of other export alternatives they can, and have, used. In fact, the MFA product coverage of the Caribbean countries is much less extensive than that of the Asian exporters (see Table III.10).

**Table III.10: SHARE OF MFA EXPORTS IN TOTAL EXPORTS OF TEXTILES
AND CLOTHING TO THE US, 1980 AND 1982
(\$ million)**

	Hong Kong		Korea		Dom. Rep.		Haiti	
	1980	1982	1980	1982	1980	1982	1980	1982
Total Textile and Clothing exports	1,771	2,113	1,035	1,404	90	124	74	86
MFA exports	1,392	1,599	770	1,072	41	46	22	32
MFA Coverage (%)	78.6	75.7	74.4	76.4	45.1	36.7	29.4	36.8

Source: GATT, "Textiles and Clothing in the World Economy," 1984.

With no real constraint on quantity, and thus little incentive to increase prices, the Caribbean has been likely benefitting from the MFA's

spillover effect; foreign investors from MFA-constrained countries are present in both the Dominican Republic and Jamaica.

TSUS 807.00 Imports

Another important aspect of the US trade regime, "807 imports", has had a big impact on CGCED manufactured exports to the US. The essence of the 807 import program is that, when a country exports products made of, at least in part, certain US components, the value of the US components is exempted from the US custom duties under the US Tariff Schedule, line 807.00. 1/ For certain CGCED countries, 807 exports have been both very important and fast-growing during the 1980s.

Table III.11 shows the share of 807 imports in total manufacturing imports of the US from selected exporters. The share of 807 exports in CGCED manufacturing exports to the US is 3 to 4 times higher than those of the world or total of LDCs.

Table III.11: THE SHARE OF TSUS 807.00 EXPORTS IN TOTAL MANUFACTURING EXPORTS TO THE US, 1985
(percent, by value)

Exporters	Share
World	11.5
LDCs	14.0
Korea	3.8
Hong Kong	4.4
Philippines	18.5
CGCED	37.2

Source: Compiled from data in the United Nations Trade Statistics and USITC "Imports Under Items 806.30 and 807.00 of the Tariff Schedule of the United States"

Only five CGCED countries are major 807 exporters: Barbados, Belize, the Dominican Republic, Haiti, and Jamaica. The gross value of the Dominican Republic's 807 exports in 1986 rose to \$330 million, over half of its manufactured exports to the US.

1/ This also applies to some imports under TSUS 806.30. Certain restrictions apply on this duty-free treatment. For detailed discussion on the 806-807 imports, see various ITC reports of the US Government.

Table III.12: TSUS 807.00 EXPORTS OF CGCED COUNTRIES, 1986

	Gross (total 807)		Net (dutiable portion)	
	Value (\$ million)	Share in MFG exports (%)	Value (\$ million)	Share in MFG exports (%)
CGCED	645.59	39.29	192.37	15.79
Bahamas	0.14	0.08	0.01	0.01
Barbados	24.11	22.50	11.00	10.26
Belize	13.69	63.94	3.76	17.58
Dominican Republic	329.99	50.34	93.29	14.23
Haiti	206.90	56.73	64.85	17.78
Jamaica	70.22	49.75	19.29	13.67
Trinidad & Tobago	0.04	0.04	0.04	0.04
Guyana	0.47	4.77	0.10	1.05
Suriname	0.05	0.69	0.02	0.25

Source: See Table III.11.

The growth rate of CGCED 807 exports, both of gross and net value, has far exceeded that of total manufacturing exports to the US. The 807 exports of the Dominican Republic, Haiti, and Jamaica have increased by more than twenty percent every year in the 1980s.

Most of these exports are clothing, cut and sewn from US cloth. For Belize, the Dominican Republic, and Jamaica, the share of clothing and footwear in total 807 exports is 80-100 percent; for most other countries 807 exports are far more diversified--from assembled electronic products to toys. This makes all the more valuable a new US program of "guaranteed access" to the US market. Under this program, often referred to as "super 807", clothing made entirely of US materials can enter the United States without regard to bilateral MFA quotas. Although these guaranteed access levels are contingent on special bilateral agreements, this super 807, unlike the regular 807, is limited to Caribbean Basin countries. As earlier noted, the 807 program had already reduced the binding nature of MFA quotas on the Dominican Republic and Haiti; the new program ensures this freedom will continue.

Table III.13: THE GROWTH RATE AND COMPOSITION OF TSUS 807.00
EXPORTS FROM CGCED COUNTRIES TO THE US, 1981-1986
(percent, by value)

	Total Manufacturing Exports	807.00 Exports Total	Value-added	Share of textiles, clothing, & footwear in 807 exports (1985)
CGCED	12.7	19.6	14.6	N.A.
Barbados	10.7	-14.6	-11.8	43.2
Belize	7.3	8.7	3.5	99.3
Dominican Republic	13.8	22.5	17.8	84.3
Haiti	9.1	28.1	25.5	53.5
Jamaica	37.7	32.6	15.6	95.2

Source: UN Trade Statistics and US Department of Commerce
USITC "Imports Under Items 806.30 and 807.00 of the Tariff Schedule of the United States"

B. The European Common Market

The norm under the Lomé Convention is duty free entry, but the EC GSP scheme offers a similar preference for Least Developed Countries which some Pacific countries and Haiti are (all the African LLDCs are in the ACP scheme). For the Caribbean ACP, the most important trade provisions of the Lomé Convention are those which provide special treatment for specific commodities. Not only do these commodities form a very high proportion of total CGCED exports to the EC, in some cases the commodity provisions are especially favorable. For sugar and bananas, which combined are 50 percent more important than all manufactures exports, the EC offers an absolute preference guaranteeing importation of a certain volume of exports at high prices.

Table III.14: CGCED EXPORTS TO THE EC, 1980-1986
(percent, by value)

	<u>Value Shares, 1980-86</u>	<u>Annual Average Real Growth Rate, 1980-86</u>
Alumina	19.7	-5.7
Sugar	19.2	1.8
Bananas	12.3	10.6
Coffee	5.6	-4.9
Rice	5.1	1.4
Rum	5.0	-6.0
Cocoa	1.7	6.4
Other Commodities	11.3	0.8
Manufactures	20.2	1.2
Total	100.0	5.0

Source: UN Trade Statistics and World Bank estimates

The CGCED experience has been somewhat the opposite of that of the ACP as a whole. For both, the Lomé Convention was unable to protect traditional exports either from falling or losing market shares. However, it has played a role in facilitating the growth, albeit from a very small base, of new ACP exports, both manufactured and processed agricultural products. The EC's imports from LDCs as a whole -- at least of the commodities emphasized in the Lomé Convention -- have more or less retained their market share during the 1980's, and the share of manufactured imports have grown slightly. Imports from the CGCED have, however, fared differently; only bananas and sugar have increased their import share, the latter solely because of a quota allocation. Manufactures remain infinitesimally small -- one half of one tenth of one percent of EC manufactures imports -- and would have fallen were it not for Trinidad and Tobago's major expansion of capital-intensive manufactured exports. Nevertheless, manufactures account for one-fifth of CGCED exports to the EC.

Table III.15: SHARE OF EC SELECTED IMPORTS FROM LDCs AND CGCED,
1980 AND 1986
(percent, by value)

Commodity	Source			
	LDCs		CGCED	
	1980	1986	1980	1986
Alumina	64.3	56.3	34.8	20.5
Sugar	76.7	80.5	23.3	26.1
Bananas	86.9	78.3	9.4	17.1
Coffee	88.8	84.6	1.4	1.0
Rice	20.0	26.1	8.4	6.0
Rum	20.0	17.0	15.3	12.2
Cocoa	77.6	70.7	0.7	0.7
Manufactures	8.7	9.2	0.05	0.05

Source: UN Trade Statistics

Because the true benefits of the ACP -- at least for the CGCED -- are concentrated in some key commodities, a commodity-by-commodity review is useful for understanding recent performance. In total, the value of these commodity arrangements for the CGCED during 1980-86 was almost \$900 million cumulative when compared to the standard GSP. Finally, the impact of both the ACP and other aspects of the EC trade regime on CGCED manufactures will be reviewed.

Sugar, Rice, and Bananas

The ACP Sugar Protocol provides Barbados, Belize, Guyana, Jamaica, St. Kitts, and Trinidad and Tobago import quotas with similar prices received by European sugar beet producers. The Protocol provides no scope to increase quotas except, occasionally, through the re-allocation of country quotas. Table III.16 shows the size of their quotas for 1985-86; most changed very little since 1975. Suriname was dropped in 1981 since it failed to fulfill deliveries while Trinidad and Tobago declined 37 percent in 1984. The Sugar Protocol has greatly increased the foreign exchange earnings of sugar exporters, even when account is taken of the depressing effect of EC sugar exports onto the world market. As Table III.16 shows, most ACP CGCED exports go to the protected EC or US market; the small proportion on the world market makes it most improbable that the foreign exchange gains from the Protocol (and US quotas) would be offset to a significant extent by the depression of world market prices. By comparing the EC price to world prices and the GSP tariff, one could estimate that the value of the sugar protocol to the Lome

CGCED was \$667 million during the 1980s (Table III.17); over \$95 million yearly. Guyana was by far the largest beneficiary, but in per capita terms the benefit was indeed important for all participants.

Table III.16: ACP-CGCED SUGAR EXPORTS, 1985-1986
(Thousand tons, percent)

	EC		Others	
	Tons	Share of exports	US	Other
Barbados	50.31	63.4	17.9	18.7
Belize	40.35	44.3	34.1	21.6
Guyana	159.41	77.1	6.2	16.8
Jamaica	118.70	85.6	14.4	0.0
St. Kitts and Nevis	15.59	71.5	27.3	1.2
Trinidad and Tobago	43.75	82.8	17.1	0.1
Total	<u>428.11</u>	<u>72.5</u>	<u>15.8</u>	<u>11.7</u>

Source: ISO Sugar Yearbook

The fixed quota and exogenous price means exporting countries can only increase returns by producing sugar at a lower cost. Unfortunately, the trend in a number of Lomé CGCED states has been for increased resource costs to produce the quota allocation; only Belize has seen an increase in yields over the 1967-85 period. Overall production has also been falling, and combined with rising domestic consumption, squeezed export availabilities. In some years, some states have imported sugar on the free world market in order to maintain deliveries to the EC; Jamaica and Trinidad have both had net exports lower than their EC quota in every year since 1981.

A major problem for the future is that production costs may rise more rapidly in the CGCED states than in the EC. At a time when the Common Agricultural Policy is under budgetary pressure, price increases for sugar are likely, at best, only to cover increases in European production costs. There is a possibility, therefore, that prices will rise less rapidly than Caribbean production costs, progressively reducing the benefits obtained by the cane exporters from the Sugar Protocol.

Like sugar, rice is a CAP product and therefore normally subject to very stringent protection in the EC market. Most imports face a levy equal to the Community threshold price less certain fixed deductions. But for the ACP, 50% of the levy is replaced by an equivalent tax in the exporting state. Thus, as in the case of sugar, the ACP are accorded not only market access but

also part of the economic rent from the high EC price levels. The preference is volume constrained. For Lomé III, the fixed quota is significantly in excess of actual flows during Lomé II. For long grained husked rice it has been set at 122,000 tons annually, compared with average annual imports during 1982-86 of 95,673 tons. To estimate the benefit of the foregone rice levy, the actual levy applied to each import must be used. Unfortunately lack of this data prohibits us from making an estimate.

Suriname is the principal ACP rice exporter to the EC, but its volume of exports has declined since 1983; by 1986 it was marginally lower than in 1980. Guyana began to export rice in 1984 and has seen a rapid increase, albeit from a low base.

The EC banana market is still organized primarily on a national basis, with major preferences for traditional suppliers in the markets of the UK, France, and Italy. In the case of the UK, the traditional suppliers are the Windward Islands, Jamaica, and Belize (plus Suriname since 1975); France and Italy offer preferred markets for nonCGCED countries, thus excluding CGCED exports. The result has been a high concentration of CGCED exports to the UK market. The UK absorbed 99% of the ACP CGCED fruit exports in 1986. During 1984-86 the Commonwealth CGCED countries supplied about 70 percent of the UK market, although this ratio is growing fast. The rest of the EC (principally Germany, the largest European banana consumer) has free competition. CGCED bananas (including those of the Dominican Republic and Haiti) are excluded from this market because they are uncompetitive.

Banana production in Jamaica and the Windward Islands has suffered adverse weather conditions for some time. The volume of exports from most of the Lomé CGCED states had been in a trough since 1980. In the case of Belize, Grenada, and Jamaica, export volumes were lower in 1986 than they were in 1980. A similar, though less dramatic picture applies in Dominica, St. Lucia and Suriname, where by 1986, export volumes were at about the 1980 levels. St. Vincent exports actually increased in most years, ending 11% higher.

The effect of the Lomé Banana Protocol is to enable the CGCED to export to the UK at a unit price significantly in excess of the world market level. The unit value of banana imports into Germany (the least restricted EC market) is taken as an approximation to the world price c.i.f. Europe. The difference between the unit value of UK imports from the CGCED and of all German imports might be taken to indicate the value of preference. On this measure, the Banana Protocol has transferred to its beneficiaries almost \$200 million over 1980-86 (Table III.17).

Table III.17: VALUE OF EC PREFERENCES COMPARED TO GSP
FOR BANANAS AND SUGAR, 1980-1986
(\$ million)

	<u>Bananas</u>	<u>Sugar</u>	<u>Total</u>	<u>%</u>
Barbados	--	76,385	76,385	8.8
Belize	6,132	62,146	68,278	7.9
Dominica	33,344	--	33,344	3.8
Grenada	9,390	--	9,390	1.1
Guyana	--	242,883	242,883	28.0
Jamaica	18,036	181,340	199,376	23.0
St. Kitts and Nevis	--	23,355	23,355	2.7
St. Lucia	71,793	--	71,793	8.3
St. Vincent	34,510	--	34,510	4.0
Suriname	25,779	--	25,779	3.0
Trinidad and Tobago	--	81,361	81,361	9.4
Total	198,984	667,470	866,454	100.0

Source: World Bank Estimates based on EC data

Rum

In 1980 the Caribbean ACP accounted for some 39% of world rum production, and about one third of the international rum trade. It supplied 29% of the European rum market while only 12% was supplied by other extra-EC sources, the balance being supplied by the Overseas Departments (Martinique/Guadalupe 35% and Netherlands Antilles 16%) and domestic production (German potato-based rum).

The Rum Protocol provides the ACP with duty-free access for rum but only within a volume quota, which is then sub-divided into national quotas. The UK has by far the largest quota; it has also has a "gentlemen's agreement" not to re-export to other EC members.

Only the Bahamas, Barbados, Guyana, Jamaica, and Trinidad and Tobago exported rum to the EC during 1980-86. (Antigua exported very minor quantities). Neither Haiti nor the Dominican Republic -- both rum producers -- have penetrated the EC market. Only the Bahamas has managed to achieve a broad spread of European sales through the successful marketing of Bacardi. Jamaica also exported some rum to six European states but none of the others broke out of the UK/Germany market to any significant extent. All the states have seen the volume of their exports fall over the period. The most serious decline has been for the Bahamas (down 10.6%) while exports from Jamaica and Trinidad have stagnated. This decline reflects a general problem for the Caribbean rum industry, which has suffered from both production and marketing

problems. In 1983, it was reported that most plants were running at about 60-80% of capacity.

Since the ACP are the principal non-EC suppliers of rum to the European market, any impact on the level of demand from the Lomé preference is likely to be felt primarily in a shift in consumption between spirits rather than between sources of supply for rum. Rum consumption levels vary from a high of 13.4% of total spirits consumption in Germany (in 1980) to less than 3% in six of the others. The small share of rum in total consumption in most EC states means demand is likely relatively price inelastic. Nevertheless, since over 85 percent of EC rum imports enter duty free, the export price is probably set close to the zero tariff rate, particularly for the CGCED, where in 1981 79% of its exports to the EC were bulk unbranded. Thus very little of the tariff savings was actually passed on to exporters; the overwhelming majority went to EC consumers. There seems ample scope, however, for increasing the unit value of rum exports. There is a large price premium for bottled and bulk branded rum which the CGCED could capture by switching from its present bulk unbranded exports.

Coffee, Cocoa, and Aluminum

The European Communities exempt imports of coffee, cocoa beans, alumina and unwrought unalloyed aluminum from ACP and least developed countries from tariffs. (Bauxite is tariff free under the MFN tariff.) This gives them --in theory-- a 5.5 percent differential for alumina, and 3.8 percent for aluminum. Comparing imports and the higher, MFN tariff, the foregone tariffs for these four items accumulated to almost \$100 million during 1980-86; \$79 million in alumina and aluminum alone. The major beneficiaries of this would be Jamaica (alumina/aluminum, coffee, and cocoa), Suriname (alumina/aluminum), and Haiti (coffee). In fact, however, all other major markets of the CGCED countries offer zero tariffs to them for these products. Even more important, the US and Canada have zero tariffs on all these imports. While the EC does not, there are so many ACP exporters of cocoa beans, bauxite, and alumina that the market price is probably determined close to the zero tariff level. All three products have declined in import volume during the 1980s, but the declines owe far more to international price declines and supply problems than EC policies; In 1986, well over half the coffee imports and almost all the unwrought aluminum came from non-ACP sources. In these cases, while the preferences did make a difference, measuring the difference is difficult without far more information on consumption, production, and marketing structures. Hence Table III.17 does not include any estimate for this differential; to that extent it remains a very conservative estimate.

Manufactures

The disappointing growth of CGCED manufactured exports to the EC reflects a virtual stagnation or fall in the exports by all but one CGCED member. Not only are they stagnant, they are small; in 1986 little Dominica's banana exports were greater in value than the manufactured exports of three of the top six CGCED manufacturers exporters to the EC -- Guyana, Jamaica, and Haiti. The Dominican Republic, which ranked second in 1986, exported mostly

ferronickel from its Falconbridge mine; but for a nomenclature quirk this export would have been placed with the primary, aluminum exports of Suriname.¹⁷ Other than those from the Bahamas and Trinidad and Tobago, most manufactured exports from the CGCED are simple chemicals and oils (usually derived from sugar or other tropical products), a very few electronics products assembled in the islands, and some clothing. In 1986, the total clothing exports of the CGCED to the EC added up to less than \$7 million.

Table III.18: EC IMPORTS OF MANUFACTURES FROM CGCED COUNTRIES
1980-1986
(percent, by value)

	Average Yearly Growth <u>80-86</u>	Share	
		<u>80</u>	<u>86</u>
CGCED	2.1	100	100
Bahamas	-11.0	31	14
Trinidad-Tobago	20.3	15	41
All other CGCED	-0.9	54	45

Source: UN Trade Statistics

Trinidad and Tobago's manufactured exports to the EC grew rapidly; so rapidly that it has replaced the Bahamas as the largest CGCED exporter to the EC. Almost two-thirds of the Bahamas' manufactures earnings in the EC in 1980 came from chemicals and hormones. By 1986, earnings from these two products were only one-third the 1980 level. This severe decline occurred in a market with strong import growth; but the growth increment went to both industrial countries -- Austria, Japan, Switzerland and the U.S. -- and to developing countries like China and Singapore.

Trinidad and Tobago's impressive growth was due to exports of methanol, ammonia, urea, and steel products, all highly capital and energy intensive. These combined accounted for almost two-thirds of Trinidad-Tobago's manufactures exports to the EC, as well as over four-fifths of its manufactures earnings in the U.S. and Canada.

From 1983 to 1986, the U.K. declined as a major producer of methanol; its decline in the UK market was picked up by five countries, among them Trinidad and Tobago. Methanol, which was first exported in 1984, is now a

¹⁷/ Since raw iron and steel require a higher degree of processing than nonferrous metals, the former are called "manufactured" exports; the latter are not.

major export for Trinidad and Tobago. In 1986 it exported methanol worth \$12.3 million in 1986 to the U.S., and \$5.7 million to the EC. The EC grants Trinidad and Tobago duty free access; Saudi Arabia, the Soviet Union, and Libya face a MFN duty of 13.4%.

Table III.19: COUNTRIES WITH INCREASED SHARES OF EC METHANOL MARKET
1983 AND 1986
(percent, by value)

	<u>1983</u>	<u>1986</u>	<u>Change</u>
United Kingdom	26.1	5.0	(21.1)
Saudi Arabia	0.4	12.8	12.4
Netherlands	33.3	38.6	5.3
Soviet Union	0.5	5.0	4.5
Libya	10.8	13.6	2.8
Trinidad and Tobago	0.0	2.5	2.5

Source: UN Trade Statistics

While EC imports of ammonia have been declining rapidly -- by 1986 they were only about 60% of the 1980 level -- imports from Trinidad and Tobago grew 24% yearly during 1980-86; this resulted in Trinidad and Tobago's becoming the largest outside supplier of ammonia to the EC in both 1985 and 1986. EC imports from Trinidad and Tobago are duty free, compared to an 11.1% tariff for those from the USSR, heretofore the largest source of EC ammonia imports. Unlike ammonia, the urea imports of the EC grew by 23% yearly. Demand for imports surged in 1986; major increased imports came from Eastern Europe, Canada, the Middle East, and Trinidad and Tobago. Trinidad, which first exported urea in 1984, to Canada, began exporting to the EC in 1985; it is the only major supplier (outside the EC) that faces no tariff, while the tariff rate of other major suppliers is 11.5%.

While overall EC demand for steel rods declined by about 5% a year from 1980 to 1986, imports grew slightly, 2% annually. The major suppliers were Austria, Sweden, and Switzerland; but smaller suppliers, however, began to capture part of the market as well. Argentina, Brazil, Venezuela, and Trinidad and Tobago together took about 10% of 1980-86 EC imports; 2.3% accrued to Trinidad and Tobago. While the market is variable, in 1986, Trinidad and Tobago exported about the same amount of steel products (\$10 million) to Canada, the U.S., and the EC. Of the suppliers to the EC market, Trinidad and Tobago faces no tariff due to a Lomé preference but neither do Austria, Sweden, and Switzerland due to special tariff agreements; the South American exporters face an MFN rate of 5.6%. Toluene (a solvent) was once a major export to the EC for Trinidad and Tobago. The market suffered a strong shock in the 1980s; imports fell 40% between 1980 and 1986. The U.S. and Canada found their exports dropping; Japan and Trinidad and Tobago ended exports to the EC in 1983. This is a Lomé duty free item, but most exporters face a 10% MFN duty.

The EC Reaction

Partly as a result of Trinidad and Tobago's export success, two antidumping cases were filed against it in the 1980's by EC producers. The first case was lodged in 1985 on steel rods. After the EC determined a dumping margin of 44%, the Commission was unable to find that the domestic industry had been injured, and the case was terminated. The second case was filed in 1986, on urea. In this case, a determination was made that little Trinidad and Tobago's urea exports had harmed domestic EC industry. The amount of duty was set at the difference between the duty-free EC border price of the import and 133 ecus per ton. This duty was in place through 1986, and encouraged Trinidad and Tobago to thereafter restrict its urea exports to the EC.

These EC antidumping actions are not new. In 1980, a Dominican Republic exporter was accused of dumping furfural (a sugar byproduct). A subsequent investigation proved the allegation incorrect. In 1983 an antidumping case was filed against Suriname's aluminum exports. In 1984 the EC Commission determined a dumping margin of 25.8% and found injury had been caused to domestic firms. However, this case had a very unusual outcome -- the Commission determined that no action would be taken because world (and Suriname's) and EC market prices had increased, and the case was terminated.

C. The Canadian Market

Canada has long given preferences to the English speaking Caribbean. In 1913, Canada negotiated a trade agreement with the British West Indies that reduced tariff rates on sugar products, fresh fruits and vegetables, cotton seed and products, and juices to either the British Preferential Tariff (BPT) or 80% of the MFN rate. In 1921, 1925, and 1966 these preferences were extended to more categories and countries, and a greater emphasis was placed on sugar, which (up to certain limits) entered duty free. Haiti and the Dominican Republic, however, were granted only MFN status.

In 1974, Canada established a General Preferential Tariff, a GSP scheme for most exports from the Group of 77, Eastern European developing countries, and the Commonwealth territories. Originally, the rate was set as the lower of two thirds the MFN rate or the BPT rate. Since then, a number of GPT rates have been reduced to zero and the product coverage enlarged. At the outset, the GPT was not extended to some sensitive sectors: textiles, leather footwear, and electronics tubes. In addition, a few products were removed due to safeguard actions, namely, rubber footwear, color TVs, organic dye, pigment, and rubber inner tubes. GPT rates apply to all CGCED members.

In 1985, the Government introduced CARIBCAN, which took effect in June 1986. All CGCED countries except the Dominican Republic, Haiti, and Suriname are eligible for CARIBCAN preferences. The duty on all items except textiles and clothing, footwear, luggage and handbags, leather clothing, lubricating oils, and methanol was reduced to zero. Least Developed Countries, such as Haiti, also face zero tariffs for GPT-eligible products.

Three quarters of the exports from the CGCED countries to Canada in the 1980s have been concentrated in only four commodities: alumina, sugar, coffee, and rum. Canada was the fastest growing market for the Caribbean during the 1980's, if from a very small base. Of the three major markets, less than 4% of CGCED exports went to Canada in 1980; by 1986, Canada's share was 6%. Canada has not always been the smallest of the three markets; during 1910-1940, the Canadian market was often over a quarter of the British West Indian exports. As late as 1961, it had fallen to only 13%. 1/ As Chapter II noted, virtually all of this growth came from the recovery of ferronickel exports (from the Dominican Republic) and alumina exports (from Jamaica and Guyana) as Canadian owned mining firms recovered. When these exports are omitted, the annual growth rate of CGCED exports to Canada drops from over 9 percent to only 4 percent. The question then arises as to why CGCED exports to Canada remain so concentrated.

Table III.20: MAJOR CGCED EXPORTS TO CANADA, 1980-1986

	Percent
Alumina/aluminum	52
Sugar and molasses	8
Coffee	8
Rum	7
Fruits and vegetables	3
All other exports	<u>22</u>
Total	<u>100</u>

Source: UN Trade Statistics

It is not likely that import practices have restricted diversification of imports from the Caribbean. Canada has no barriers or preferences for sugar imports, which is imported duty free at world prices. The trade regime has few barriers affecting other CGCED trade. Some of Canada's textiles and clothing imports are governed by MFA bilateral agreements. Since no CGCED countries have MFA bilateral restraints with Canada, discrimination against non-CGCED countries may have diverted some trade to the Caribbean.

1/ "Trade Between the West Indies and Canada" by H.R. Brewster and C. Y. Thomas, in West Indies-Canada Economic Relations, a collection of selected papers prepared by the University of the West Indies in connection with the Canada-Commonwealth Caribbean Conference, July 1966.

The few barriers affecting Caribbean exports are in rum and footwear. A federal act allows provinces to import, blend, and bottle liquor as they each choose. Most provinces have chosen to import Caribbean rum in bulk, bottling or blending it in Canada. Since each province has its own rules for importing and blending, there is a marketing/packaging problem for the exporter. Rum bottled in Canada must be labelled Canadian blended rum. It may only have, however, the country of origin mentioned on the label if the Canadian rum is less than 75% by volume (of the blending component). Under the provincial regulations, the Caribbean brand name may not be used on the label, even when the imported rum is a high proportion of the blend. Hence Caribbean branded rum must be imported in bottles, an expensive proposition. The Canadian government is currently working to change this situation; new regulations which would permit brand and country labelling of bulk rum imports are expected to be issued in 1988.

There have been global quotas on footwear imports since 1977. Only women's and girls' casual and dress shoes with a value of less than \$28 (Canadian) are presently included. The current quota system is due to expire on November 30, 1988, and the Government has stated it does not expect to renew the quotas when they expire.

IV. CARIBBEAN EXPORT ISSUES

Most of the CGCED countries are small; all but four have populations of less than a million. Smallness means that economic growth must inevitably be export-led, at least in the long run. Other than in exceptional circumstances, rapid export growth requires strong competitiveness in the commodities or services exported. By this test, the CGCED countries as a whole did not succeed during the first half of the 1980s, although there was significant diversity in performance.

Any economy's international competitiveness is determined by the interplay of both external and internal factors. Changes in competitiveness can be due solely to external shifts in the real exchange rates of major trading partners or competitors, or it can be due to changes in internal factors, such as wages, labor relations, national economic management, or the attractiveness of the investment/business climate.

A. Relative Exchange Rates

Whatever their cost structure, the export competitiveness of all but a few CGCED countries deteriorated markedly over much of the period, primarily because of a single overriding external factor -- the peg of most currencies to the U.S. dollar, which appreciated relative to European currencies until 1986. As measured by export-weighted real effective exchange rates, the deterioration in the CGCED countries' competitiveness was very large; in all but three cases it was in the range of 20-30% and, with one exception, continued through 1987 (Graphs IV.1-3). The rapid depreciation of the U.S. dollar since then has sharply reversed this decline in competitiveness, but while it lasted, it had considerable negative effects on export performance in most of the CGCED countries.

These negative impacts were likely felt in profit squeezes on sugar exports to the EC, in a disincentive for developing new exports for the EC and Japan markets, and in intensified competition in North American import markets from countries whose real exchange rates had not appreciated as rapidly as the CGCED's. Fortunately, until 1985, the relative decline in price-sensitive CGCED manufactured exports to nondollar areas (i.e., to the EC) was accompanied by similar shifts in both world and developing country trade as well. The U.S. (and to some extent, Canada) was a booming market. Between 1980 and 1985--before the dollar depreciated--the share of U.S. imports of the three major markets' imports rose by two-thirds while, the EC's share fell. Imports from all developing countries and the CGCED had similar patterns.

Table IV.1: RELATIVE IMPORT SHARES IN THE US, EC, AND CANADA,
1980, 1985 AND 1986
(percent, by value)

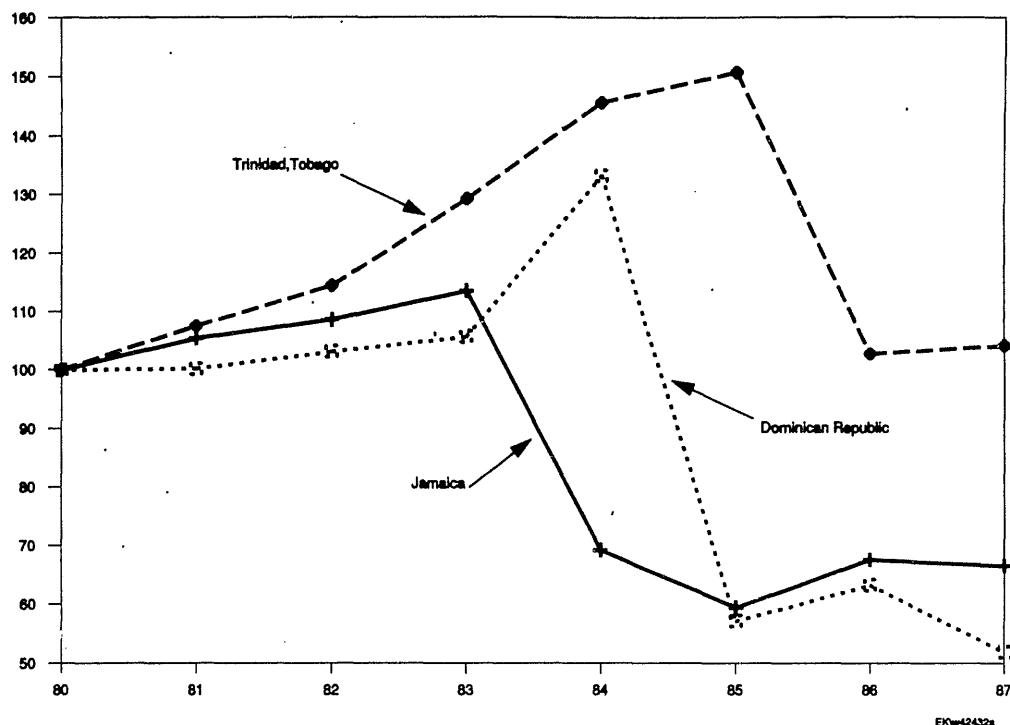
Exporter:	US			EC			Canada		
	80	85	86	80	85	86	80	85	86
<hr/>									
World	23	38	35	70	53	58	7	9	8
LDCs	45	63	60	52	33	37	3	4	4
CGCED	78	87	85	20	11	12	2	2	4

Source: UN Trade Statistics

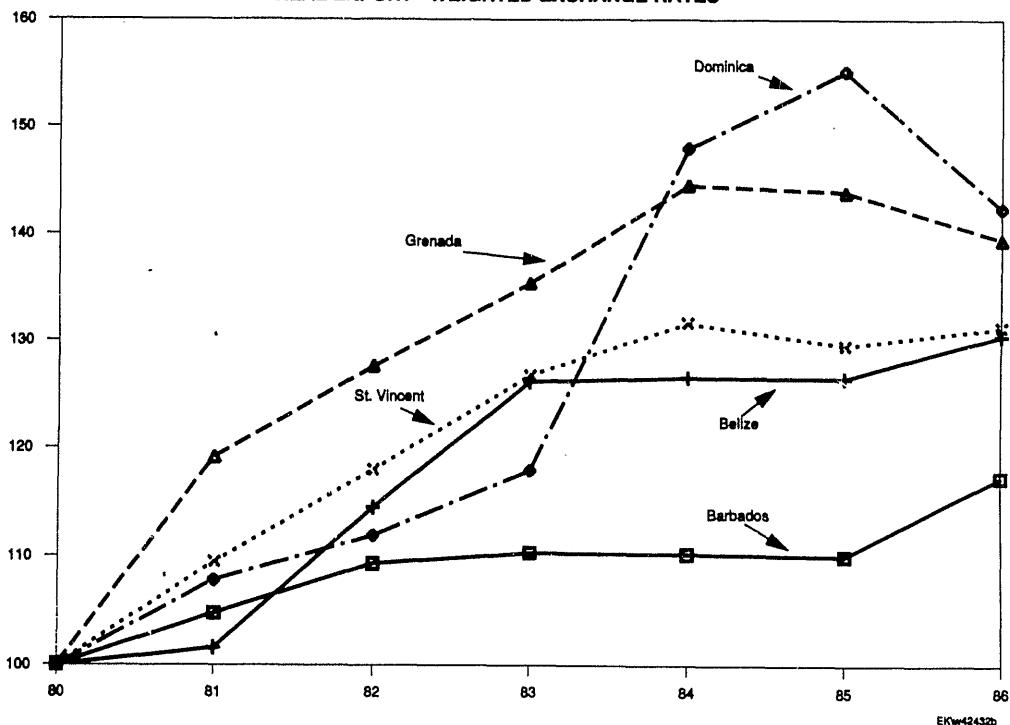
Graphs IV.1 to 3 show real exchange rates weighted by the export markets of each CGCED member. 1/ Equally interesting is the comparison of CGCED countries' real rates relative to their competitors. Table IV.2 shows the change in competitiveness of some CGCED members when their real exchange rate is compared to their competitors for specific products, weighted by each competitor's share of world exports of that product. The average real exchange rate of all competitors is kept at 100 for all years. While this analysis could not be done for 1987, and thus some of the depreciation of the U.S. dollar is not included, many competitors also peg to the dollar, and few appreciated significantly against it. Only the Dominican Republic and Jamaica remained at or below the average of their competitors. In all major products checked, by 1986, the other CGCED members had appreciated 40 percent or more than their competitors since 1980.

1/ These exchange rates are Consumer Price Index deflated. An increase in the index indicates a real exchange rate appreciation.

Graph IV.1
REAL EXPORT-WEIGHTED EXCHANGE RATES



Graph IV.2
REAL EXPORT - WEIGHTED EXCHANGE RATES



Graph IV.3
REAL EXPORT - WEIGHTED EXCHANGE RATES

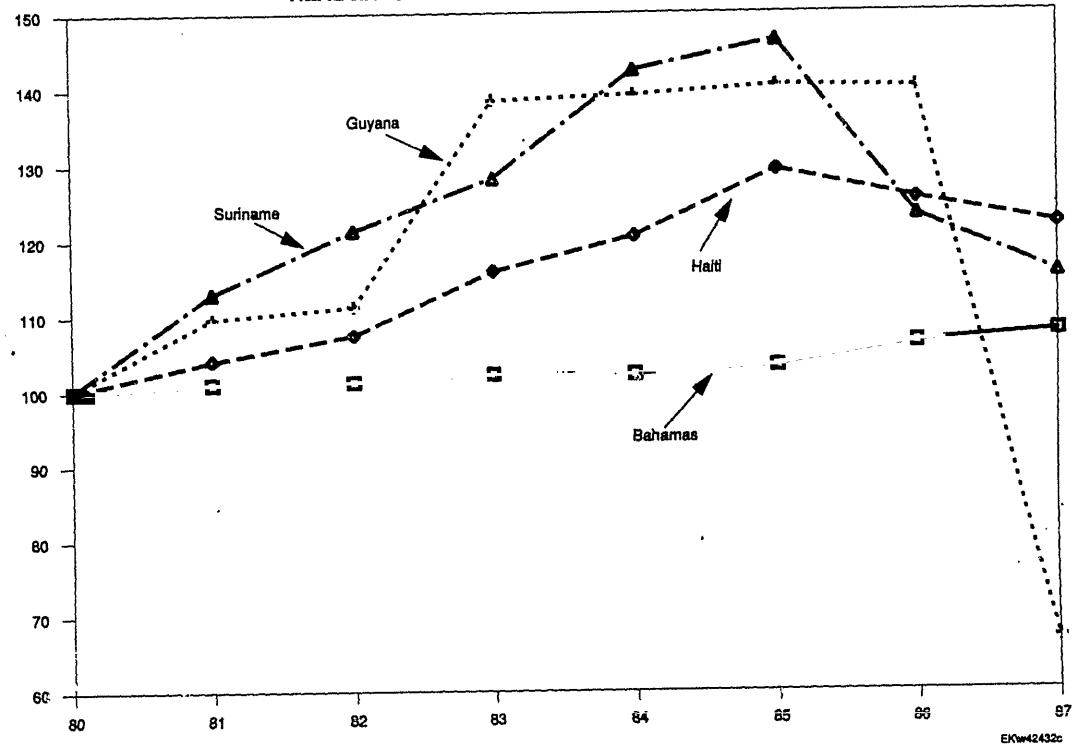


Table IV.2: INDEX OF COMPETITOR-WEIGHTED REAL EXCHANGE RATES, 1980-1986, 1/
(1980=100)

<u>Sugar</u>		<u>Cocoa</u>		<u>Coffee</u>	
Dominican Republic	78	Dominican Republic	104	Dominican Republic	89
Barbados	170	Trinidad and Tobago	167	Jamaica	89
Guyana	176			Haiti	177
Belize	154				
<u>Citrus</u>		<u>Beef</u>			
Jamaica	88	Dominican Republic	102		
Belize	147	Belize	172		
		Guyana	200		

Source: World Bank Estimates based on IMF data.

Jamaica and the Dominican Republic were the major exceptions. 2/ Although suffering during the first part of the period from dollar appreciation like the rest of the CGCED countries, by the end of the period their real exchange rates had depreciated significantly below their 1980 levels. Trinidad and Tobago had devalued to about its 1980 level by 1987. Nevertheless, 1980 was a year when petroleum prices were at historically high real levels. When compared to a more "normal" year such as 1976, the real exchange rate was about 16% higher in 1987. Jamaican and Dominican manufactured exports grew rapidly after their real devaluations occurred. In fact, before 1984 they had been growing slower than the CGCED average; after devaluation they grew almost five times faster. In spite of devaluations, no CGCED country has actively used the real exchange rate as a significant export-promotion instrument. Real exchange rate changes occurred only after severe disequilibria caused by economic mismanagement, too-rapid growth in external flows, or changes in the U.S. dollar.

-
- 1/ These exchange rates are Consumer Price Index deflated and are averaged for 1980-1986. Weights are export trade value shares of the CGCED countries' major competitors. An increase in the index indicates a real exchange rate appreciation.
 - 2/ From a relative point of view they can hardly be thought of as exceptions, since the two countries between them have almost half of both CGCED population and exports.

Table IV.3: GROWTH RATES OF MANUFACTURES EXPORTS TO THE US, EC AND CANADA,
1980-1986
(percent per year, by value)

	<u>1980-1983</u>	<u>1984-1986</u>
Dominican Republic	8.7	16.2
Jamaica	8.4	67.9
Other CGCED members	13.1	4.3

Source: UN Trade Statistics

The larger CGCED economies have often appreciated their real exchange rates by lax domestic demand management while maintaining a constant nominal exchange rate by pegging to the U.S. dollar. The extreme openness of the smaller CGCED economies and their lack of individual control over their nominal exchange rates makes real exchange rate shifts difficult to control. In such economies, a change in export receipts or capital flows quickly affects demand and then imports, and since the nominal exchange rate cannot be changed, the foreign sector can stay roughly in equilibrium only by adjusting factor and product prices, often through adjustments in economic activity. For example, a major price fall (or rise) of an export product could direct economic activity away from (or toward) production of that product, thus smoothing out, over time, the short-term effect on wages and profits. Mismanagement--that defers the natural tendency towards adjustment in such small economies--will cause a lag in adjusting the real exchange rate over time. In either case, lax demand management accompanied by lags in adjusting nominal rates, or permitting distortions to lag adjustments to revised external prices, exports are discriminated against and the country becomes uncompetitive.

B. Wages and Productivity

Table IV.4 indicates that hourly labor compensation costs in manufacturing (including fringe benefits) in the CGCED countries range from two to six times those in selected low-wage Asian countries.

Table IV.4: HOURLY COMPENSATION COSTS FOR SEMI-SKILLED PRODUCTION WORKERS IN EXPORT MANUFACTURING INDUSTRIES, SELECTED COUNTRIES, 1987

	US \$/hr <u>a/</u>	US = 100	Low-wage Asia = 1 <u>b/</u>
F.R. of Germany	\$15.93	116.6	61.0
United States	13.66	100.0	52.3
Canada	11.94	87.4	45.7
United Kingdom	8.67	63.4	33.2
Portugal	2.36	17.3	9.0
Hong Kong	1.98	14.5	7.6
Taiwan, China	1.84	13.4	7.0
Korea	1.54	11.2	5.9
Thailand	0.35	2.6	1.3
Sri Lanka	0.29	2.1	1.1
Philippines	0.26	1.9	1.0
China	0.15	1.1	0.6
Panama	1.77	13.0	6.8
Brazil	1.14	8.3	4.4
Mexico	0.84	6.1	3.2
Costa Rica	0.95	7.0	3.6
Guatemala	0.88	6.4	3.4
Honduras	0.53	3.9	2.0
Dominican Republic	0.79	5.8	3.0
Haiti	0.58	4.2	2.2
Jamaica	0.63	4.6	2.4
Barbados	1.72	12.6	6.6
Trinidad and Tobago	1.66	12.2	6.4
Antigua	1.40	10.2	5.4
St. Vincent	1.15	8.4	4.4
Grenada	1.02	7.5	3.9
St. Kitts-Nevis	0.93	6.8	3.6
St. Lucia	0.92	6.7	3.5
Dominica	0.92	6.7	3.5

Note: Estimates contained in this table should be treated with caution. They are derived from a number of independent sources, including for the industrial countries, Hong Kong, Korea, Brazil, and Taiwan, China, ILO reports. For Barbados, Costa Rica, Haiti, Honduras, Trinidad and Tobago, and Jamaica, the sources were various studies of free zones. Data for the remaining countries were developed from various informal and published sources. Importance should not be placed on small differences.

a/ Including estimated payroll taxes, fringe benefits, and year-end or equivalent bonuses.

b/ Average of Thailand, Sri Lanka, Philippines, China.

The other side of wage rates is labor productivity. While no good data exists on export-related productivity, a rough measure of the changes in productivity--value added in manufacturing per employed worker--has been calculated for a few CGCED countries. What is striking about this data is that value added per worker decreased significantly after 1977 in all countries except Barbados. Since the data on employment in manufacturing that underlie the productivity estimates are not reliable, no further conclusions should be made beyond the very tentative one that per worker productivity may be declining in some CGCED countries. Such a finding is not inconsistent with economic developments in the countries during the period.

Table IV.5: VALUE ADDED PER WORKER, 1977-1987
(1980=100)

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Barbados a/				100	96	107	111	104	114	112	
Jamaica	125	116	117	100	100	101	95	87			
Suriname		126	107	100	105	87	78	77	82	83	
Trinidad and Tobago	95	97	95	100	96	94	88	79	69		

a/ For Barbados, 1981=100

Sources: World Bank Report 5616-JM, and UNIDO.

These data may be capturing a deterioration of several factors. Deterioration in investment/business climates could have prevented businesses from operating efficiently, resulting in less output per unit of labor. Deterioration in basic human skills because of poorer education or work habits could have been a second factor. Finally, less efficient labor relations could have been a third factor.

Positive labor relations require a commitment on the part of management, individual workers and unions to keep export production competitive. The excessive labor militancy and strong unions with rigid work rules in some countries, and the work stoppages in others during recent political turmoils are examples of labor situations that have seriously undercut export competitiveness. Even when labor relations have been effective at the plant level, exporters in a number of countries have experienced serious difficulties from port or utility stoppages.

C. Other Factors

The existence of labor-intensive manufacturing in the CGCED is thus obviously due to other factors, such as lower transport and communication

costs, better investment/business climate, adequate infrastructure, or trade preferences. As detailed in previous chapters, however, the trade preferences extended to the Caribbean alone are not yet an important element for the region's manufacturing exports, although the region's major manufacturing industry, the cut-make-and-trim of clothing, has probably benefitted from the MFA's propensity to divert such trade to the CGCED.

The concentration of CGCED manufactured exports on the U.S. market is probably linked to propinquity. Traditionally, the Caribbean has been a high-cost ocean shipping area. Both shipping rates and port charges have been relatively high. This has been changing in recent years. The existence of efficient container transhipment ports in Jamaica, Puerto Rico, and (to some extent) Barbados, now allows several CGCED locations to take advantage of the hub-and-spoke economies of the load center/feeder vessel system, reducing the cost and time of shipment.

For Jamaica, ocean transport to the United States is now very efficient and the rates are competitive. The remaining important problem is land transportation to the port. The development of Kingston as a container transhipment port is also hampered by the Europe-Caribbean conference systems (WITASS) and by the existence of cargo reservation systems maintained by a number of countries in the region. WITASS is still fragmented along former colonial lines, but its high rates are now under great pressure from non-conference lines like Sealand and Evergreen.

Ocean shippers in the Dominican Republic have also been able to take partial advantage of the Kingston and San Juan container ports since Sealand maintains an efficient container terminal in Haina. Many of the rest of the CGCED countries, however, suffer from low-frequency and high-cost service. In the Eastern Caribbean, only St. Lucia appears to have a port with low charges and satisfactory service to the U.S., Europe, and East Asia.

Air cargo, which is essential for some perishable agricultural commodities and for some garment and electronic assemblies, has not developed to the point where scale economies from solely cargo planes are available in many countries. Widebody belly cargo is quite satisfactory for some commodities, some countries and some destinations, but not for others because of fluctuating capacity constraints, small shippers with little bargaining power, and national flag restrictions on airline competition.

In some of the less well-managed economies--like Guyana, Haiti, Suriname, and Grenada--there have been difficulties with foreign exchange, repatriation of capital, and even plant, shop and farm security. More general problems affecting these and other CGCED countries are deficiencies in legal systems that undercut the enforceability of contracts, difficult labor relations, restrictive administration of labor permits, restrictive regulation of business services, confused land-use policies, high marginal income tax rates, and high regulatory burdens. These all raise production costs or interfere with timeliness and quality.

One partial solution to these problems--the export processing zones (EPZ)--has been successful in minimizing difficulties for manufactured exports. Both Jamaica and the Dominican Republic are in the midst of a manufacturing export boom centered in their rapidly expanding EPZ factories. Somehow these zones--with their special legal and usually physical framework--allow efficiency criteria to predominate. They constitute a separate trade regime that has demonstrated the ability to coexist with the often highly protected import-substitution regime alongside. The very mobility of the manufacturing enterprises sited in the EPZs deters the usual heavy-handed regulatory, tax and customs actions often applied to the rest of the economy.

The experience of Jamaica and the Dominican Republic with EPZs is instructive. Using imports into the United States under TSUS 806/807 as an incomplete proxy for manufactured exports from the zones, it appears that manufactures exports from the zones in both countries have grown almost twice as fast as their other manufactures exports. These dramatic results may even underestimate the relative growth of EPZ exports, because some exports produced in the zones (exports to Canada and the EC, and non-806/807 exports to the U.S.) are not included. They indicate that the zones either attracted the better exporters or allowed them to perform better, resulting either way in more rapidly expanding exports. What is also striking is that 806/807 exports increased at very high rates despite a world recession in 1981-82 and unfavorable macroeconomic conditions in both countries during that period.

In general, the infrastructure in CGCED countries needed for export production is relatively good and has been improving. Most CGCED countries moved vigorously before and during the 1980s to improve road networks, telecommunications facilities, ports and harbors, and water facilities. There is an obsolete general port in Haina, Dominican Republic, and a deficient road system south of Belmopan, Belize, but they affect only selected exports. Probably the most serious general deficiency is the high cost of electric power, and the frequent outages in some countries. Countries like Guyana and Suriname, which have major deficits in many areas of the economy, unsurprisingly also have serious deficiencies in infrastructure.

Table IV.6: GROWTH IN VALUE OF 806/807 AND MANUFACTURES EXPORTS FOR JAMAICA AND DOMINICAN REPUBLIC, 1980-1986
(percent per year)

	806/807 Exports to United States	Other Manufactured Exports to U.S., EC, and Canada a/
Jamaica	38.7	22.5
Dominican Republic	18.2	10.6

a/ Not including exports of minerals (SITC 68) and ferronickel alloys (SITC 67169).

The role of infrastructure in the development of exports need not be overdone, however. The major infrastructure investments in the region during the last decade did not by themselves guarantee buoyant exports. Nevertheless, poor road maintenance, telecommunications deficits, power outages, and inadequate airport facilities may have had some effect on exports. The poor road maintenance that exists in many CGCED countries, the relatively poor communications, and constant power outages in some countries, when added together do present problems. Improved road maintenance on major arteries and more efficient power supplies, could be high-return investments for CGCED countries with deficits in these areas.

V. CONCLUSIONS AND RECOMMENDATIONS

The trade preferences received by the CGCED countries, of course, do not optimize world welfare. A preference for the CGCED countries means that other countries, usually developing ones, are discriminated against. Thus, it may cause trade diversion away from optimal sources. Bananas are produced far more cheaply in Ecuador than in most Caribbean countries; Hong Kong may produce shirts more cheaply than some CGCED countries. But the world is not optimal; some of the Caribbean countries produce sugar at internationally competitive prices, but are either excluded from major markets or must compete against massive subsidies. In other cases, the "preference" is only because of a trade barrier. Both Canada and the EC offer zero tariffs to imports of most CGCED products, but in Canada's case this is not a "preference" since it offers it to all developing countries. In the case of the EC, it may be a "preference", however, since its GSP scheme does not always provide for zero tariffs, reserving that only for ACP countries. This report has, therefore, been written from a relatively parochial viewpoint -- that the preferences granted the CGCED countries be judged only on their stated purpose, that of expanding market access for the beneficiaries.

In spite of these preferences, the overall export performance of the CGCED countries has not been outstanding. But the major reason has been the extremely poor performance of primary commodity exports; a performance unfortunately matched by the rest of the world, given the very low commodity prices in the 1980s. The Caribbean, as well, faces strict quantitative restrictions on sugar exports to two of its three major markets. When primary commodity exports are omitted the Caribbean's export performance is virtually the same as the developing country average. Surely, the CGCED countries desire to do better, as do the major markets that have offered them preferences. How both can work together to improve CGCED export prospects, then, is the final part of this report.

A. Conclusions

It has been difficult for the three markets to give significant preferences to the Caribbean. In the case of all three, their average tariffs are low; in the case of Canada and the U.S., not only are most MFN tariffs on raw materials low or zero, fairly broad GSP schemes generally have zero

tariffs. The EC, which also has low tariffs on raw materials, does not always offer a zero GSP tariff, reserving that for its ACP scheme as well as a least developed country preference. Fundamentally, it is because these markets offer such generous concessions to most developing countries that they find it so difficult to offer major preferences to the Caribbean beyond sharing domestic commodity subsidies.

However, some of the fastest-growing Caribbean exports to the Canadian/EC/US markets enjoy no preferences. The rapid expansion of exports to Canada, for example, was due to the recovery of demand for minerals. Nevertheless, Canada could offer no special preferences to virtually any of these exports; the tariff was already zero. In other cases, however, the rapid growth was stimulated by highly preferential tariffs. The CBI products -- those few products which are excluded from the U.S. GSP and thus receive specific preferences in the U.S. CBI -- have grown extremely rapidly. This is because the U.S. trade regime discriminates strongly in their favor. Ethanol, for example, is subject to an MFN tariff equivalent to 60% ad valorem. Other CBI products have lesser, but still high MFN tariffs.

Some schemes, such as the Lomé Conventions and the U.S. 806/807 program have been effective in spite of a more generic target than the Caribbean. The 807 program has been an extremely effective device for stimulating Caribbean exports of manufactured products. It uniquely links suppliers and markets, and as such reduces many of the problems nascent export industries often encounter in extremely small countries. The super 807 scheme, since it excludes some strong competitors in the area (e.g., Mexico, and Colombia), and in essence nullifies MFA quotas, may encourage a strong diversion of clothing exports towards the Caribbean area.

The EC commodity subsidies have transferred about \$1 billion to the CGCED countries during 1980-87. This has clearly had an effect on the living standards of many Lome Caribbean countries. Nevertheless, there have been some adverse effects on the beneficiaries. For example, in the Windward Islands, the UK's subsidy to banana exports has increased wages and returns to banana land, and has probably made other, more efficient economic activity less attractive. The sugar subsidies have done little to enhance productivity; indeed, as some Caribbean islands become highly uncompetitive in sugar, they are filling their EC and U.S. quotas only by importing from the world market and re-exporting.

Some of the "subsidies" to the CGCED countries stem from the developed countries' agricultural protectionism. The EC and U.S. sugar quotas permit the Caribbean to share the high rents paid by the EC and U.S. consumer; these quotas have produced substantial transfers for many CGCED member countries, but have allocated exports in a different manner than would less protectionism, redistributing incomes within the CGCED countries. For example, Belize and the Dominican Republic might export much more sugar in such an environment, while Trinidad and Tobago and Haiti might export none. Quotas can also be revised. The reductions in U.S. sugar quotas since 1982 have been very significant; in fact, the CGCED countries have lost more as a whole from this reduction than they have gained from 807 and CBI-specific

preferences. Some income transfers via commodity agreements stem from programs with little domestic rationale. The UK banana scheme is quite costly to the British consumer, but is not based on protection to domestic producers. It may prove difficult to continue this scheme once the EC moves to a common internal market in 1992.

Unfortunately, the variety and number of the preferential schemes may occasionally have overwhelmed the "beneficiary" exporters. For example, some of the documentation required by preferential schemes is so detailed that exporters may not complete it. In other cases, the many preferences offered may lead exporters to choose only one scheme instead of the optimal one. Many exports to the U.S. from CGCED countries used GSP documentation rather than CBI.

Part of the reason the Caribbean economies were not able to respond more to trade preferences stemmed from their own policies. Most important was their exchange rate regime. Because most CGCED countries peg their currency to the U.S. dollar, they experienced--along with the dollar--a real appreciation during the early 1980's against virtually all their export markets. This reduced their competitiveness by about 20 to 30 percent in all but three countries, not only in their export markets, but also compared to their competitors. Only the Dominican Republic and Jamaica undertook real devaluations, and then only when their balance of payments was unsustainable; the rapid growth of their manufactured exports after their devaluation confirms the key role exchange rates play in export promotion.

Most CGCED countries have relatively high wages compared to low income Asia, but those in Jamaica, Haiti, and the Dominican Republic are about equal to or below those of Mexico, Brazil, and Central America. The Commonwealth Caribbean is also regionally competitive except for Antigua, Trinidad and Tobago, and Barbados; the last two having wages close to the East Asian exporters. More important is the probable non-increase in per worker productivity. This, combined with the appreciating exchange rates, underscores the loss in competitiveness of most CGCED members.

In general, the relatively good infrastructure in most CGCED members --thanks to improvements undertaken over the last 10 years--means that export constraints do not really stem from infrastructure problems. In a few countries, however, more and better road maintenance, telephone systems, and electric power would have high returns. More important as export constraints are the myriad of distortions caused by government interventions in trade, production, and labor markets. The most telling evidence of this is the strong success of EPZs, where such interventions are nonexistent. EPZ exports from the Dominican Republic and Jamaica have grown almost twice as fast as their other manufactured exports.

B. Recommendations

The recommendations for the major preference-offering markets might be divided into three: what not to do, what might be done soon, and what might be done over time.

A first suggestion stems from the overwhelming importance of commodity exports, particularly sugar. No single U.S. trade action has been as important to most CGCED countries as the reduction of the U.S. sugar quota. The U.S. proposal at the Uruguay Round is to return to free trade in agricultural products over a ten-year period. Even if this were to be agreed, there would be a lengthy period during which the Caribbean could face reduced (or worse, even further reductions) sugar export possibilities. It seems inconsistent with other U.S. efforts to assist the Caribbean to let this major reduction of quotas stand. Provision of quota access to a highly subsidized market does encourage CGCED producers -- as it does domestic producers -- to continue producing products they should not. But some CGCED countries are either internationally competitive in sugar or could be so with better policies; this implies quotas could be distributed more consistent with comparative advantage, thus reducing adjustment needs as price differentials drop.

When small economies depend on only a few primary commodities for export receipts, they find it difficult to adapt quickly to changing events. When the industry producing that commodity has large fixed costs, such as sugar mills with linked transport facilities, variations in the external environment are all the more adverse. The U.S. might consider emulating the ACP sugar scheme, which fixes the quantity of imports fairly consistently, and then adjust prices slowly consistent with domestic policies.

The EC and U.S. sugar quotas and the UK's banana quotas have successfully transferred resources to the Caribbean, but in some cases, they have been inconsistent with their general developmental purpose. If it is decided to subsidize an economy with foreign aid, it may be more efficient to do it directly, basing the subsidy on an agreed development program, as Canada does. Using a product subsidy that encourages a country to purchase sugar on the world market, just to ship it to the EC or the U.S. is far less efficient. It may be politically easier for a donor country to transfer resources via a trade subsidy, but in some cases (e.g., Dominica) the link between the export product and the aid leads to not only an overemphasis on producing that product, but to an imbalance in macroeconomic parameters -- thus forcing the country to consider taxing the export to get the subsidy directly for the Government. The political feasibility for a quick shift in this direction seems limited. Indeed, such a major rapid change could affect both donor and recipient countries adversely. Nevertheless, some movement toward general aid and away from product specific support would be salutary.

The EC might reconsider its rapidly growing use of antidumping action. It is doubtful that either dumping or threats of dumping by Caribbean exporters can cause injury in the largest market in the world. In fact, in some cases (e.g., steel, urea), the antidumping request was probably the prelude to industry-wide price fixing agreements. The EC's antidumping action thus may discourage active competition as well as be inconsistent with its efforts to encourage the Caribbean to diversify its exports.

On a more positive vein, the outstanding success of the U.S. 807 program might be emulated by other markets. There seems little discrimination

against CGCED manufactured exports to the EC, yet except for those from Trinidad and Tobago, they are limited and slow growing. The one major difference between the two markets stems from the lack of marketing links. Propinquity favors the U.S. market overwhelmingly. Perhaps a pilot program similar to the U.S. 807 program could overcome the limited marketing capacity of the CGCED countries. It would not necessarily have to be limited to the CGCED countries; they have shown their capacity to compete successfully in such a program against a broad variety of competitors. The second benefit of the US program is the new "super 807" program, which shelters the beneficiaries from one of the most important restraints on developing country exports, the Multifiber Arrangement.

While the "super 807" may turn out to be extremely valuable over time, the CBI products have grown rapidly because they are indeed linked to very valuable preferences. The lesson here is that the remaining high tariffs and non tariff barrier protection in the three major markets can be a powerful tool for export stimulation. While this protectionism is there for a reason, the very small producers of the Caribbean, even if they are granted preferences in these sensitive products, are unlikely to upset or injure domestic producers. Perhaps the EC and Canada could offer tariff or NTB-free access in some highly protected areas to the CGCED countries. A requirement, similar to that of the CBI, by which the U.S. International Trade Commission monitors Caribbean imports annually, could be used to ensure sensitive industries are not unduly displaced.

The recent Canadian-U.S. Free Trade Agreement leads to both a problem and an opportunity. The problem stems from the varying value added requirements (the value added to the product by both the Caribbean exporters and importers) for defining CARIBCAN or CBI eligible imports--60 percent for the former, 50 percent for the latter, and both on a different basis. Given the projected free trade between the two, both U.S and Canadian Customs officials are consulting to consider how to handle "Canadian" or "U.S." products which are not exactly the same in each other's view. It may be useful to consider simplified rules of origin or an 806/807 for both countries which--excepting textiles and clothing 1/ -- would permit value added in all three areas (Canada, the U.S., or the Caribbean)--to be counted for preferential eligibility. This would likely present major new export opportunities for CGCED exporters, who could ship products to both markets interchangeably.

Ultimately, there remains a major question as to the overall utility of the trade preferences offered to the CGCED countries. The General System of Preferences of all three markets is fairly broad; and the ACP scheme as well as the special breaks granted least developed countries by Canada and the EC go even further. In fact, the newest preference scheme, CARIBCAN, is minimal in the incremental benefits it offers only to the Caribbean. This

1/ Textiles and clothing are sensitive to both countries and are not fully included in the proposed Free Trade Agreement.

report has not explored the Caribbean's hypothetical position in a world of totally free trade. Indeed, as Section IV points out, the result may depend more on the policies of the CGCED countries themselves than on their markets. Moreover, the general effect on the CGCED countries as a group may be less relevant than the effect on the individual countries themselves. It is apparent, for example, that the Dominican Republic--which has been hurt most by the U.S. sugar policies and gained much from non-CBI programs--might have the most to gain from a world of totally free trade. On the other hand some of the smaller OECS countries have gained the most--in per capita terms--from EC subsidies and would have quite an adjustment to such a world. But the real point is that many of the programs that directly affect the Caribbean--for good or bad--are international ones, usually directed to a much wider group of developing countries. In fact, the most effective in encouraging new exports and transferring incomes were not designed for the Caribbean. It may well be that trade preferences granted to a small group of developing countries are far less useful than generous and simple GSP schemes, direct financial aid in support of projects or development programs, and marketing assistance linked to very specific exemptions from protection--be it tariffs or agricultural quotas--for manufactured or primary products in which the beneficiary has a comparative advantage.

This may, to some extent, be already occurring. The US decision to "graduate" the East Asian Four from its GSP scheme as of January 1, 1989, may provide benefits--from trade diversion--to other GSP beneficiaries, particularly in the Caribbean. With the entrance of Spain and Portugal into the EC, the membership of the ACP is also being reconsidered. Inclusion of the Dominican Republic--which has historic and present-day ties to Spain and remains the odd-man-out in some Caribbean preferential schemes--would further the move to generalize ACP benefits.

Finally, there is much more effort required of the Caribbean countries themselves. While their transport facilities and infrastructure may not be optimal, they are not significant deterrents to exports. More crucial to any export promotion success is export competitiveness. The larger Caribbean countries have not used exchange rates effectively until forced to. Clearly, more prudent demand management, a more flexible approach to nominal exchange rate adjustments, or both would favor export growth. The smaller CGCED countries are so small and so open they would find it difficult to change real exchange rates by revising nominal rates even if they had control over their nominal rate, and most do not. All the more reason then for a much, much stronger attention by them to (1) prudent demand management, (2) the sterilization (by increasing net foreign exchange reserves) of windfall gains, and (3) removing the distortions that impede adjustment to revised external prices.

In the Caribbean milieu, prudent demand policies means not only conservative fiscal action but appropriate monetary policies (especially attractive deposit and lending rates) as well as wage restraint. Given the Caribbean's open capital market, (virtually every entrepreneur in the CGCED countries has a U.S. dollar bank account in Miami) interest rate repression only encourages inappropriate capital flows. And, given the relative size of

the government work force--and the link between unions and many governments--wage policies cannot be abdicated. Worker productivity must be increased; a decline would not only be inconsistent with fixed exchange rates and wages, it would be even more inconsistent with wage increases. Windfall gains, be they from oil or bananas or aid, must be sterilized. These create rapid imbalances in small economies. Since aid flows are discretionary, this means that nonproject aid or subsidies should not be varied abruptly. Finally, the reason variations in external factor and product prices can lead to such significant fluctuations in real exchange rates is the many distortions in CGCED economies that defer rapid adjustments. Trade regime distortions--outlined in the World Bank country reports--and other distortions caused by private or public sector rigidities placed on the productive process must be reduced.

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Table 1: WORLD TRADE 1980-1986
(Million US\$)

	1980	1981	1982	1983	1984	1985	1986
WORLD TRADE							
Total All Merchandise	1,665,561	1,882,255	1,748,175	1,726,385	1,835,405	1,808,005	1,710,860
Total Manufactures	912,566	1,063,494	1,015,669	1,025,249	1,130,262	1,153,540	1,191,767
Total Non Fuel Primaries	340,328	351,707	323,451	327,474	346,933	325,225	311,034
Fuels	412,567	463,725	409,055	373,478	358,210	329,221	208,059
Total less Fuels	1,252,894	1,418,530	1,339,120	1,352,907	1,477,195	1,478,785	1,502,801
WORLD IMPORTS FROM LDCs							
Total All Merchandise	382,117	409,098	394,458	406,925	436,768	430,368	375,406
Total Manufactures	120,752	145,883	146,392	158,834	188,044	189,059	195,606
Total Non Fuel Primaries	115,668	114,895	106,161	108,760	116,201	109,413	104,026
Fuels	145,606	147,741	141,866	139,221	130,755	131,896	75,774
Total less Fuels	236,511	261,356	252,592	267,703	306,013	298,472	299,632

Source: UN Trade Statistics

Table 2: U. S. IMPORTS 1980-1986
(000 US\$)

	1980	1981	1982	1983	1984	1985	1986
<u>U.S. IMPORTS FROM THE WORLD</u>							
Total Merchandise	252,997,355	273,352,214	254,862,297	269,859,176	341,176,775	361,395,692	387,053,999
Total Manufactures	131,146,558	149,286,080	152,688,089	170,897,361	233,431,378	262,038,120	300,826,660
Total Non Fuel Primaries	39,599,303	39,749,364	34,674,464	38,888,693	44,606,119	43,609,795	46,421,017
Fuels	82,251,495	84,316,769	67,499,743	60,073,122	63,139,278	55,747,776	39,806,322
Total less Fuels	170,745,860	189,035,444	187,362,553	209,786,054	278,037,497	305,647,915	347,247,678
<u>U.S. IMPORTS FROM LDCs</u>							
Total Merchandise	99,562,657	102,417,628	96,114,015	106,398,608	125,412,089	124,223,264	124,619,225
Total Manufactures	33,648,644	38,743,116	40,558,744	49,728,956	66,558,181	70,252,835	80,636,536
Total Non Fuel Primaries	19,698,309	19,425,480	16,435,201	17,344,991	20,520,236	19,534,705	21,296,474
Fuels	46,215,705	44,249,032	39,120,070	39,324,661	38,333,673	34,435,724	22,686,215
Total less Fuels	53,346,953	58,168,596	56,993,945	67,073,947	87,078,417	89,787,540	101,933,010
<u>U.S. IMPORTS FROM CGCED COUNTRIES</u>							
Total Merchandise	5,850,160	5,718,737	4,392,339	5,034,946	5,056,315	4,156,518	3,521,775
Total Manufactures	804,082	915,963	859,042	1,200,043	1,502,549	1,602,212	1,643,241
Total Non Fuel Primaries	1,368,592	1,446,052	988,001	1,005,713	1,286,927	894,671	884,231
Fuels	3,677,486	3,356,722	2,545,297	2,829,190	2,266,839	1,659,635	994,303
Total less Fuels	2,172,674	2,362,015	1,847,042	2,205,756	2,789,477	2,496,883	2,527,472

<u>U.S. IMPORTS FROM THE BAHAMAS</u>	1980	1981	1982	1983	1984	1985	1986
Total Merchandise	1,432,697	1,306,423	1,085,746	1,745,647	1,218,111	652,353	464,471
Total Manufactures	88,547	69,933	76,213	95,270	99,725	119,577	165,948
Total Non Fuel Primaries	37,059	41,736	43,147	49,597	62,095	49,584	42,981
Fuels	1,307,091	1,194,755	966,386	1,600,780	1,056,292	483,192	255,542
Total less Fuels	125,606	111,668	119,360	144,867	161,819	169,161	208,929

U.S. IMPORTS FROM BARBADOS

Total Merchandise	98,835	82,319	109,295	205,027	256,350	205,399	110,190
Total Manufactures	58,153	63,598	95,074	194,253	247,247	192,351	107,148
Total Non Fuel Primaries	40,682	14,590	13,940	10,764	9,103	13,048	3,034
Fuels	0	4,130	282	10	0	0	8
Total less Fuels	98,835	78,188	109,014	205,017	256,350	205,399	110,182

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IU.S. IMPORTS FROM BELIZE

Total Merchandise	62,985	45,570	38,301	29,086	47,849	49,364	53,635
Total Manufactures	13,999	10,812	12,606	7,204	18,156	27,640	21,416
Total Non Fuel Primaries	48,986	34,758	25,695	21,881	29,692	21,724	32,220
Fuels	0	0	0	0	2	0	0
Total less Fuels	62,985	45,570	38,301	29,086	47,847	49,364	53,635

U.S. IMPORTS FROM THE DOMINICAN REPUBLIC

Total Merchandise	826,981	976,729	668,571	855,330	1,067,456	1,030,973	1,138,447
Total Manufactures	302,527	345,232	266,075	412,128	506,990	567,362	655,481
Total Non Fuel Primaries	524,451	631,477	402,496	443,202	560,460	463,566	482,966
Fuels	3	20	0	0	6	45	0
Total less Fuels	826,978	976,709	668,571	855,330	1,067,450	1,030,928	1,138,447

<u>U.S. IMPORTS FROM GUYANA</u>	1980	1981	1982	1983	1984	1985	1986
Total Merchandise	135,202	118,754	78,980	75,544	87,625	53,867	70,557
Total Manufactures	10,787	12,269	11,192	10,402	8,857	10,194	9,789
Total Non Fuel Primaries	124,415	106,485	67,780	65,143	78,769	43,673	60,767
Fuels	0	0	8	0	0	0	0
Total less Fuels	135,202	118,754	78,972	75,544	87,625	53,867	70,557

U.S. IMPORTS FROM HAITI

Total Merchandise	263,778	287,007	325,648	351,499	394,427	405,823	390,736
Total Manufactures	215,977	246,307	264,761	307,431	351,529	374,417	364,679
Total Non Fuel Primaries	47,801	40,700	60,888	44,068	42,899	31,407	26,057
Fuels	0	0	0	0	0	0	0
Total less Fuels	263,778	287,007	325,648	351,499	394,427	405,823	390,736

U.S. IMPORTS FROM JAMAICA

Total Merchandise	417,828	399,074	323,026	307,116	415,063	292,439	322,339
Total Manufactures	20,746	36,077	26,666	29,216	40,306	93,218	141,134
Total Non Fuel Primaries	397,082	362,997	296,360	271,037	369,576	192,633	165,156
Fuels	0	1	0	6,864	5,180	6,588	16,050
Total less Fuels	417,828	399,074	323,026	300,253	409,882	285,851	306,290

U.S. IMPORTS FROM ST. KITTS-NEVIS, ST. LUCIA, ST. VINCENT, ANTIGUA, DOMINICA, GRENADA

Total Merchandise	36,758	33,990	28,150	40,433	46,754	98,239	87,658
Total Manufactures	16,408	28,226	22,702	27,576	37,614	66,044	68,517
Total Non Fuel Primaries	12,237	5,764	5,448	10,539	9,140	9,795	13,917
Fuels	8,114	0	0	2,318	0	22,400	5,223
Total less Fuels	28,644	33,990	28,150	38,115	46,754	75,839	82,434

<u>U.S. IMPORTS FROM SURINAME</u>	1980	1981	1982	1983	1984	1985	1986
Total Merchandise	125,622	199,402	67,787	68,571	111,737	64,138	43,775
Total Manufactures	3,407	3,320	2,843	3,946	3,877	5,449	6,591
Total Non Fuel Primaries	122,215	196,082	64,944	64,625	107,860	58,689	37,184
Fuels	0	1	0	0	0	0	0
Total less Fuels	125,622	199,401	67,787	68,571	111,737	64,138	43,775

U.S. IMPORTS FROM TRINIDAD AND TOBAGO

Total Merchandise	2,449,474	2,269,469	1,666,835	1,356,693	1,410,942	1,303,922	839,968
Total Manufactures	73,533	100,191	80,910	112,617	188,249	145,959	102,538
Total Non Fuel Primaries	13,663	11,464	7,304	24,857	17,336	10,553	19,949
Fuels	2,362,278	2,157,815	1,578,621	1,219,219	1,205,358	1,147,410	717,480
Total less Fuels	87,196	111,655	88,214	137,475	205,584	156,512	122,487

Source: UN Trade Statistics

Table 3: EC IMPORTS 1980-1986
(000 US\$)

<u>EC IMPORTS FROM THE WORLD</u>	1980	1981	1982	1983	1984	1985	1986
Total Merchandise	738,208,647	650,976,581	620,418,724	596,630,516	607,042,955	633,238,964	744,318,500
Total Manufactures	408,545,382	350,453,730	341,987,232	338,975,234	348,020,441	373,680,486	499,881,343
Total Non Fuel Primaries	161,500,486	134,737,634	127,576,306	124,847,884	126,693,604	128,236,534	151,181,322
Fuels	160,606,650	157,720,221	143,993,631	125,657,623	125,419,633	124,321,931	86,088,629
Total less Fuels	577,601,997	493,256,360	476,425,093	470,972,893	481,623,323	508,917,033	658,229,871

EC IMPORTS FROM LDCs

Total Merchandise	122,019,845	99,074,635	99,933,148	97,147,098	103,424,073	105,406,310	104,794,829
Total Manufactures	35,710,490	30,176,033	29,270,437	30,056,636	32,361,241	33,807,687	46,012,867
Total Non Fuel Primaries	42,089,682	34,400,157	32,484,327	32,251,194	34,069,601	34,363,330	37,058,140
Fuels	43,434,666	33,583,470	37,470,306	34,313,988	36,459,467	36,635,220	21,118,960
Total less Fuels	78,585,178	65,491,164	62,462,841	62,833,110	66,964,606	68,771,091	83,675,869

EC IMPORTS FROM CGCED COUNTRIES

Total Merchandise	2,352,749	1,628,152	1,588,338	1,177,704	1,081,249	1,188,866	1,155,325
Total Manufactures	204,700	172,726	179,567	188,388	167,024	208,007	231,257
Total Non Fuel Primaries	974,475	816,752	750,681	694,307	630,704	683,650	817,340
Fuels	1,173,513	638,536	657,903	293,699	275,794	294,563	102,357
Total less Fuels	1,179,236	989,616	930,435	884,005	805,455	894,303	1,052,968

<u>EC IMPORTS FROM ANTIGUA</u>	1980	1981	1982	1983	1984	1985	1986
Total Merchandise	3,111	415	203	63	5	55	414
Total Manufactures	37	188	31	46	4	30	182
Total Non Fuel Primaries	75	227	172	16	1	25	232
Fuels	3,000	0	0	0	0	0	0
Total less Fuels	112	415	203	63	5	55	414

EC IMPORTS FROM THE BAHAMAS

Total Merchandise	925,033	222,165	335,732	155,038	119,949	196,066	63,090
Total Manufactures	63,191	35,705	32,358	21,310	22,897	36,505	31,384
Total Non Fuel Primaries	30,675	23,240	23,199	16,437	22,054	19,419	24,477
Fuels	831,167	163,220	280,123	117,271	74,865	139,255	5,757
Total less Fuels	93,866	58,945	55,608	37,767	45,085	56,811	57,333

EC IMPORTS FROM BARBADOS

Total Merchandise	36,793	28,194	30,761	22,489	34,476	26,900	20,346
Total Manufactures	7,870	7,104	7,915	5,692	5,393	5,589	5,267
Total Non Fuel Primaries	28,923	21,090	22,846	16,765	29,083	21,311	15,079
Fuels	0	0	0	0	0	0	0
Total less Fuels	36,793	28,194	30,761	22,489	34,476	26,900	20,346

EC IMPORTS FROM BELIZE

Total Merchandise	33,740	32,167	28,983	21,494	26,709	20,175	28,437
Total Manufactures	4,758	2,371	2,883	1,525	1,515	1,112	1,539
Total Non Fuel Primaries	28,981	29,796	26,092	19,959	25,144	19,063	26,710
Fuels	0	0	0	0	0	0	0
Total less Fuels	33,740	32,167	28,983	21,494	26,709	20,175	28,437

<u>EC IMPORTS FROM DOMINICA</u>	1980	1981	1982	1983	1984	1985	1986
Total Merchandise	21,738	29,424	20,557	19,589	20,407	23,937	39,957
Total Manufactures	14,866	2,375	3,326	766	615	873	1,218
Total Non Fuel Primaries	6,871	16,961	17,231	18,406	19,695	23,062	38,725
Fuels	0	10,089	0	0	0	2	0
Total less Fuels	21,738	19,335	20,557	19,589	20,407	23,935	39,957

EC IMPORTS FROM THE DOMINICAN REPUBLIC

Total Merchandise	78,385	69,913	57,669	66,135	65,820	72,215	73,878
Total Manufactures	51,971	50,686	33,214	44,835	40,190	55,352	57,162
Total Non Fuel Primaries	26,407	19,153	24,433	21,300	25,631	16,861	16,716
Fuels	0	52	1	0	0	2	0
Total less Fuels	78,385	69,862	57,668	66,135	65,820	72,213	73,878

EC IMPORTS FROM GRENADA

Total Merchandise	17,934	21,777	11,419	12,538	10,986	12,657	16,513
Total Manufactures	293	7,639	196	367	397	367	412
Total Non Fuel Primaries	17,641	14,131	10,958	11,758	10,589	12,290	16,102
Fuels	0	0	266	414	0	0	0
Total less Fuels	17,934	21,777	11,154	12,124	10,986	12,657	16,513

EC IMPORTS FROM GUYANA

Total Merchandise	150,690	148,605	123,355	95,085	113,182	114,349	124,779
Total Manufactures	12,104	8,287	9,614	7,461	10,704	14,140	12,356
Total Non Fuel Primaries	138,586	140,296	113,741	87,624	102,478	98,915	112,412
Fuels	0	0	0	0	0	1,295	0
Total less Fuels	150,690	148,605	123,355	95,085	113,182	113,055	124,779

<u>EC IMPORTS FROM HAITI</u>	1980	1981	1982	1983	1984	1985	1986
Total Merchandise	88,149	55,224	64,064	76,747	61,209	65,317	84,080
Total Manufactures	10,700	13,941	17,316	17,904	14,617	10,678	12,998
Total Non Fuel Primaries	77,434	41,259	46,733	54,467	46,587	54,582	71,028
Fuels	0	0	0	3,639	0	12	0
Total less Fuels	88,149	55,224	64,064	73,108	61,209	65,306	84,080

EC IMPORTS FROM JAMAICA

Total Merchandise	244,491	248,210	174,407	155,429	125,198	143,474	187,758
Total Manufactures	4,266	3,365	2,484	2,428	3,150	2,314	9,854
Total Non Fuel Primaries	240,213	244,784	171,756	150,887	121,962	140,999	177,824
Fuels	0	2	100	2,042	0	152	0
Total less Fuels	244,491	248,208	174,307	153,386	125,198	143,323	187,758

EC IMPORTS FROM ST. KITTS-NEVIS

Total Merchandise	8,142	8,377	9,877	4,403	4,154	7,260	6,587
Total Manufactures	1,247	1,123	330	425	153	99	262
Total Non Fuel Primaries	6,895	7,254	9,547	3,979	4,002	7,161	6,325
Fuels	0	0	0	0	0	0	0
Total less Fuels	8,142	8,377	9,877	4,403	4,154	7,260	6,587

EC IMPORTS FROM ST. LUCIA

Total Merchandise	21,568	27,280	27,293	33,356	38,708	57,060	88,809
Total Manufactures	332	442	262	288	283	455	538
Total Non Fuel Primaries	21,236	26,839	27,031	33,068	38,425	56,605	88,271
Fuels	0	0	0	0	0	0	0
Total less Fuels	21,568	27,280	27,293	33,356	38,708	57,060	88,809

<u>EC IMPORTS FROM ST. VINCENT</u>	1980	1981	1982	1983	1984	1985	1986
Total Merchandise	17,138	19,743	19,423	19,018	19,148	28,810	31,271
Total Manufactures	789	533	784	821	474	898	1,186
Total Non Fuel Primaries	16,349	19,210	18,639	18,197	18,667	27,912	30,085
Fuels	0	0	0	0	0	0	0
Total less Fuels	17,138	19,743	19,423	19,018	19,148	28,810	31,271

EC IMPORTS FROM SURINAME

Total Merchandise	279,662	160,109	193,103	212,798	132,286	148,098	146,340
Total Manufactures	685	939	755	698	1,396	2,124	972
Total Non Fuel Primaries	278,976	159,171	192,346	212,074	128,718	144,286	145,157
Fuels	0	0	0	4	42	0	0
Total less Fuels	279,661	160,109	193,103	212,793	132,245	148,098	146,340

EC IMPORTS FROM TRINIDAD AND TOBAGO

Total Merchandise	426,177	556,548	491,493	283,524	309,011	272,492	243,067
Total Manufactures	31,590	38,030	68,099	83,822	65,236	77,472	95,928
Total Non Fuel Primaries	55,212	53,342	45,956	29,371	37,669	41,158	48,197
Fuels	339,346	465,174	377,414	170,329	200,887	153,847	96,600
Total less Fuels	86,831	91,375	114,080	113,195	108,124	118,646	146,467

Source: UN Trade Statistics

Table 4: CANADIAN IMPORTS 1980-1986
(000 US\$)

<u>CANADA'S IMPORTS FROM THE WORLD</u>	1980	1981	1982	1983	1984	1985	1986
Total Merchandise	58,976,460	66,303,329	55,034,572	61,210,783	73,703,422	76,337,481	81,098,637
Total Manufactures	43,391,325	49,637,670	42,283,218	49,206,087	60,252,001	63,659,545	68,526,931
Total Non Fuel Primaries	8,422,063	8,551,609	7,252,332	7,773,041	8,711,730	8,083,198	8,783,562
Fuels	7,163,072	8,114,051	5,499,022	4,231,655	4,739,690	4,594,738	3,788,144
Total less Fuels	51,813,388	58,189,278	49,535,550	56,979,128	68,963,731	71,742,743	77,310,494
 <u>CANADA'S IMPORTS FROM LDCs</u>							
Total Merchandise	5,823,281	7,225,676	6,046,777	6,729,737	7,757,007	7,202,163	7,500,125
Total Manufactures	2,018,933	2,470,858	2,282,772	3,073,651	4,043,471	3,891,771	4,947,220
Total Non Fuel Primaries	1,449,381	1,534,579	1,276,043	1,418,333	1,565,578	1,477,812	1,603,573
Fuels	2,354,968	3,220,240	2,487,961	2,237,753	2,147,959	1,832,580	949,332
Total less Fuels	3,468,313	4,005,436	3,558,816	4,491,984	5,609,048	5,369,583	6,550,794
 <u>CANADA'S IMPORTS FROM CGCED COUNTRIES</u>							
Total Merchandise	155,950	247,933	228,193	198,398	288,558	212,191	243,098
Total Manufactures	24,153	24,216	28,910	43,141	38,033	41,831	67,183
Total Non Fuel Primaries	104,994	134,485	155,300	142,346	163,746	156,249	156,110
Fuels	26,803	89,231	43,983	12,911	86,778	14,111	19,806
Total less Fuels	129,147	158,702	184,210	185,487	201,779	198,080	223,292

<u>CANADA'S IMPORTS FROM THE BAHAMAS</u>	1980	1981	1982	1983	1984	1985	1986
Total Merchandise	32,949	44,633	53,558	41,039	98,456	28,466	21,454
Total Manufactures	9,161	10,344	13,902	27,425	15,409	17,727	17,539
Total Non Fuel Primaries	1,605	2,552	4,131	2,756	3,916	3,693	3,916
Fuels	22,183	31,737	35,525	10,857	79,131	7,046	0
Total less Fuels	10,766	12,896	18,033	30,182	19,325	21,420	21,454

CANADA'S IMPORTS FROM BARBADOS

Total Merchandise	9,840	7,741	5,477	6,598	5,746	5,121	15,315
Total Manufactures	4,554	3,444	2,236	1,408	1,010	1,433	8,789
Total Non Fuel Primaries	5,285	4,297	3,241	3,142	3,576	3,688	2,905
Fuels	0	0	0	2,049	1,160	0	3,621
Total less Fuels	9,840	7,741	5,477	4,549	4,586	5,121	11,694

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CANADA'S IMPORTS FROM BELIZE

Total Merchandise	1,498	2,702	4,281	7,193	2,414	3,630	872
Total Manufactures	173	100	37	21	82	21	150
Total Non Fuel Primaries	1,325	2,602	4,244	7,173	2,332	3,609	722
Fuels	0	0	0	0	0	0	0
Total less Fuels	1,498	2,702	4,281	7,193	2,414	3,630	872

CANADA'S IMPORTS FROM THE DOMINICAN REPUBLIC

Total Merchandise	14,950	14,838	14,893	15,765	24,667	13,369	25,946
Total Manufactures	2,447	1,321	1,767	1,853	4,772	2,512	6,372
Total Non Fuel Primaries	12,503	13,517	13,126	13,913	19,894	10,858	19,574
Fuels	0	0	0	0	0	0	0
Total less Fuels	14,950	14,838	14,893	15,765	24,667	13,369	25,946

<u>CANADA'S IMPORTS FROM GUYANA</u>	1980	1981	1982	1983	1984	1985	1986
Total Merchandise	30,540	18,740	19,723	15,589	20,223	17,078	19,373
Total Manufactures	474	508	2,585	75	828	584	471
Total Non Fuel Primaries	30,066	18,232	17,138	15,514	19,395	16,494	18,903
Fuels	0	0	0	0	0	0	0
Total less Fuels	30,540	18,740	19,723	15,589	20,223	17,078	19,373

CANADA'S IMPORTS FROM HAITI

Total Merchandise	5,628	6,317	6,958	8,724	12,793	7,012	8,828
Total Manufactures	4,486	5,501	5,116	7,172	9,351	5,738	8,293
Total Non Fuel Primaries	1,143	816	1,842	1,552	3,442	1,274	535
Fuels	0	0	0	0	0	0	0
Total less Fuels	5,628	6,317	6,958	8,724	12,793	7,012	8,828

CANADA'S IMPORTS FROM JAMAICA

Total Merchandise	42,671	81,360	101,583	88,999	107,067	113,620	107,305
Total Manufactures	1,185	1,302	1,495	1,772	2,641	2,716	7,145
Total Non Fuel Primaries	41,486	80,058	100,089	87,222	104,426	110,905	100,159
Fuels	0	0	0	5	0	0	1
Total less Fuels	42,671	81,360	101,583	88,994	107,067	113,620	107,304

CANADA'S IMPORTS FROM ST. KITTS-NEVIS, ST. LUCIA, ST. VINCENT, ANTIGUA, DOMINICA, GRENADA

Total Merchandise	2,000	1,521	1,041	1,180	1,662	1,791	3,877
Total Manufactures	927	766	412	460	266	318	794
Total Non Fuel Primaries	1,073	755	630	720	1,397	1,473	3,082
Fuels	0	0	0	0	0	0	0
Total less Fuels	2,000	1,521	1,041	1,180	1,662	1,791	3,877

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<u>CANADA'S IMPORTS FROM SURINAME</u>	1980	1981	1982	1983	1984	1985	1986
Total Merchandise	6,259	7,408	6,064	5,984	881	459	1,199
Total Manufactures	0	1	3	1	0	0	0
Total Non Fuel Primaries	6,259	7,407	6,061	5,983	881	459	1,199
Fuels	0	0	0	0	0	0	0
Total less Fuels	6,259	7,408	6,064	5,984	881	459	1,199

CANADA'S IMPORTS FROM TRINIDAD AND TOBAGO

Total Merchandise	9,615	62,672	14,614	7,326	14,650	21,643	38,931
Total Manufactures	746	929	1,358	2,954	3,677	10,783	17,632
Total Non Fuel Primaries	4,249	4,248	4,799	4,373	4,487	3,796	5,115
Fuels	4,620	57,495	8,457	0	6,487	7,065	16,184
Total less Fuels	4,995	5,178	6,157	7,326	8,163	14,579	22,746

Source: UN Trade Statistics

Table 5: Average Yearly Growth Rates of Trade, 1980-1986
(percent)

Exporter:	<u>World</u>		<u>LDCs</u>		<u>CGCED</u>	
	<u>Value</u>	<u>Volume</u>	<u>Value</u>	<u>Volume</u>	<u>Value</u>	<u>Volume</u>
<u>A. All Merchandise</u>						
Importer:						
World	0.4	2.7	-0.3	2.0	-8.8	-2.6
US-EC-Canada	2.4	4.0	0.7	2.0	-8.5	-2.2
US	7.3	8.2	3.8	4.6	-8.1	-1.8
EC	0.1	2.3	-2.5	-0.4	-11.2	-5.1
Canada	5.5	4.6	4.3	3.5	7.7	15.1
<u>B. Primary Products (excl. fuels)</u>						
World	-1.5	0.7	-1.8	0.5	-5.7	2.7
US-EC-Canada	-0.3	1.5	-0.9	0.7	-4.5	4.0
US	2.7	3.5	1.3	2.1	-7.0	1.2
EC	-1.1	1.0	-2.1	0.0	-2.9	5.7
Canada	0.7	-0.1	1.7	0.9	6.8	16.3
<u>C. Manufactures</u>						
World	4.5	6.9	8.4	10.8	8.9	8.0
US-EC-Canada	6.9	8.4	10.7	12.1	11.1	10.2
US	14.8	15.7	15.7	16.6	12.7	11.7
EC	3.4	5.6	4.3	6.6	2.1	1.2
Canada	7.9	7.1	16.1	15.2	18.6	17.6
<u>D. Fuels</u>						
World	-10.8	-8.8	-10.3	-8.3	-21.9	-20.2
US-EC-Canada	-10.4	-8.9	-11.3	-10.1	-21.8	-21.1
US	-11.4	-10.7	-11.2	-10.5	-19.6	-19.0
EC	-9.9	-7.9	-11.3	-9.4	-33.4	-32.0
Canada	-10.1	-10.8	-14.1	-14.7	-4.9	-5.7
<u>E. All Merchandise less Fuels</u>						
World	3.1	5.4	4.0	6.4	-0.1	4.4
US-EC-Canada	5.2	6.8	6.0	7.4	1.5	6.0
US	12.6	13.4	11.4	12.3	2.6	5.7
EC	2.2	4.4	1.1	3.2	-1.9	5.0
Canada	6.9	6.0	11.2	10.3	9.6	16.6

Source: Calculated from Tables 1-4

Table 6: Share of Imports by Value, 1980-1986 (excl. fuels)

A. LDC & CGCED Share in Imports from World:

Importer:	World		US-EC-Canada		US		EC		Canada	
	<u>80</u>	<u>86</u>	<u>80</u>	<u>86</u>	<u>80</u>	<u>86</u>	<u>80</u>	<u>86</u>	<u>80</u>	<u>86</u>
Exporter:										
World	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
LDCs	18.9	19.9	16.9	17.7	31.2	29.4	13.6	12.7	6.7	8.5
CGCED	0.34	0.28	0.44	0.35	1.3	0.73	0.20	0.16	0.25	0.29

B. Countries' Export Shares in US-EC-Canadian Imports from CGCED:

Importer:	US-EC-Canada		US		EC		Canada	
	<u>80</u>	<u>86</u>	<u>80</u>	<u>86</u>	<u>80</u>	<u>86</u>	<u>80</u>	<u>86</u>
CGCED	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Antigua	0.003	0.001	*	*	0.01	0.04	*	*
Bahamas	6.6	7.6	5.8	8.3	8.0	5.4	8.3	9.6
Barbados	4.2	3.7	4.5	4.4	3.1	1.9	7.6	5.2
Belize	2.8	2.2	2.9	2.1	2.9	2.7	1.2	0.4
Dominican Republic	26.4	32.6	38.1	45.0	6.7	7.0	11.6	11.6
Grenada	0.52	0.43	*	*	1.5	1.6	*	*
Guyana	9.1	5.6	6.2	2.8	12.8	11.9	23.7	8.7
Jamaica	20.3	15.8	19.2	12.1	20.7	17.8	33.0	48.1
St. Kitts-Nevis	1.0	2.2	1.3	3.3	0.69	0.63	1.1	2.4
St. Lucia	0.6	2.3	*	*	1.8	8.4	*	*
St. Vincent and the Grenadines	0.5	0.8	*	*	1.5	3.0	*	*
Suriname	11.8	5.0	5.8	1.7	23.7	13.9	4.9	0.5
Trinidad & Tobago	5.1	7.7	4.0	4.8	7.4	13.9	3.9	10.2

*Data included with St. Kitts-Nevis.

Source: Calculated from Tables 1-4.

Table 7: AVERAGE GROWTH RATES OF THE US\$ VALUE OF NONFUEL EXPORTS, 1980-1986

Exporter	Market:			US-EC-Canada			US			EC			Canada		
	World			Tot.	Mfg.	Prim.	Tot.	Mfg.	Prim.	Tot.	Mfg.	Prim.	Tot.	Mfg.	Prim.
WORLD	3.1	4.5	-1.5	5.2	6.9	-0.3	12.6	14.8	2.7	2.2	3.4	1.1	6.9	7.9	0.7
LDC's	4.0	8.4	-1.8	6.0	10.7	-0.9	11.4	15.7	1.3	1.1	4.3	-2.1	11.2	16.1	1.7
CGCED	-0.1	8.9	-5.7	1.5	11.1	-4.5	2.6	12.7	-7.0	-1.9	2.1	-2.9	9.6	18.6	6.8
Antigua	-26.9	-41.6	15.8	24.4	30.5	20.8	*	*	*	24.4	30.5	20.8	*	*	*
Bahamas	5.9	7.6	0.3	3.8	4.9	0.5	8.9	11.0	2.5	-7.9	-11.0	-3.7	12.2	11.4	16.0
Barbados	-2.1	5.0	-17.2	-0.4	9.4	-19.1	1.8	10.7	-35.1	-9.4	-6.5	10.3	2.9	11.6	-9.5
Belize	-3.4	3.1	-5.2	-2.8	3.4	-4.6	2.6	7.3	6.7	-2.8	-17.2	-1.4	-8.6	-2.4	-9.6
Dominica	9.8	-18.4	32.3	10.7	-34.1	33.4	*	*	*	10.7	-34.1	33.4	*	*	*
Dom. Rep.	4.0	11.1	-2.3	5.1	12.4	-1.3	5.5	13.8	-1.4	-1.0	1.6	-7.3	9.6	17.3	7.8
Grenada	0.7	-19.4	1.9	-1.4	5.8	-1.5	*	*	*	-1.4	5.8	-1.5	*	*	*
Guyana	-8.8	-6.3	-9.1	-6.3	-0.5	-6.8	-10.3	-1.6	-11.3	-3.1	0.3	-3.4	-7.3	-0.1	-7.4
Haiti	5.0	8.6	-3.7	5.2	8.9	-4.2	6.8	9.1	-9.6	-0.8	3.3	-1.4	7.8	10.8	-11.9
Jamaica	-5.8	17.6	-9.4	-2.6	34.9	-6.9	-5.0	37.7	-13.6	-4.3	15.0	-4.9	16.6	34.9	15.8
St. Kitts-															
Nevis	14.4	21.4	3.2	15.7	24.6	2.4	19.3	26.9	2.2	-3.5	-22.9	-1.4	11.7	-2.5	19.2
St. Lucia	18.9	-19.2	22.5	26.6	8.4	26.8	*	*	*	26.6	8.4	26.8	*	*	*
St. Vincent-															
Grenadines	14.6	1.3	15.7	10.5	7.0	10.7	*	*	*	10.5	7.0	10.7	*	*	*
Suriname	-9.7	1.7	-10.0	-12.0	10.8	-12.4	-16.1	11.6	-18.0	-10.2	6.0	-10.3	-24.1	-	-24.1
Trinidad and															
Tobago	3.7	7.5	-3.6	8.5	12.6	0.0	5.8	5.7	6.5	9.1	20.3	-2.2	28.7	69.4	3.1

Source: UN Trade Statistics

*Data included with St. Kitts-Nevis.

Table 8: AVERAGE GROWTH RATES OF THE VOLUME OF NONFUEL EXPORTS, 1980-1986

Exporter	Market:			US-EC-Canada			US			EC			Canada		
	World														
	Tot.	Mfg.	Prim.	Tot.	Mfg.	Prim.	Tot.	Mfg.	Prim.	Tot.	Mfg.	Prim.	Tot.	Mfg.	Prim.
WORLD	5.4	6.9	0.7	6.8	8.4	1.5	13.4	15.7	3.5	4.4	5.6	1.0	6.0	7.1	-0.1
LDCs	6.4	10.8	0.5	7.4	12.1	0.7	12.3	16.6	2.1	3.2	6.6	0.0	10.3	15.2	0.9
CGCED	4.4	8.0	2.7	6.0	10.2	4.0	5.7	11.7	1.2	5.0	1.2	5.7	16.6	17.6	16.3
Antigua	-21.9	-42.1	26.1	30.8	29.4	31.5	*	*	*	30.8	29.4	31.5	*	*	*
Bahamas	7.4	6.7	9.2	5.8	4.1	9.4	10.6	10.1	11.6	-4.6	-11.8	4.9	13.6	10.5	26.3
Barbados	-1.0	4.2	-9.9	0.5	8.5	11.9	1.3	9.8	-29.4	-3.3	-7.3	-2.3	5.0	10.6	-1.5
Belize	3.1	2.2	3.2	3.6	2.5	3.8	2.7	6.4	1.5	5.3	-17.8	7.4	-1.8	-3.2	-1.6
Dominica	18.5	-19.1	44.0	20.2	-34.6	45.3	*	*	*	20.2	-34.6	45.3	*	*	*
Dom. Rep.	7.9	10.2	6.4	9.1	11.4	7.4	9.5	12.8	7.4	0.8	0.7	0.9	17.2	16.3	17.3
Grenada	9.4	-20.0	11.0	7.2	4.9	7.2	*	*	*	7.2	4.9	7.2	*	*	*
Guyana	-1.6	-7.1	-1.1	1.3	-1.4	1.5	-3.3	-2.4	-3.4	4.8	-0.5	5.2	0.8	-1.0	0.8
Haiti	6.7	7.7	4.8	6.8	1.5	8.0	6.7	8.2	-1.6	6.8	2.4	7.3	7.7	9.9	-4.0
Jamaica	0.5	16.6	-1.4	3.9	33.8	1.4	-0.3	36.5	-5.9	3.8	14.0	3.6	26.4	33.8	26.1
St. Kitts-															
Nevis	16.8	20.4	12.3	18.1	23.6	11.5	20.6	25.8	11.2	4.8	-23.5	7.3	19.7	-3.4	29.8
St. Lucia	29.3	-19.9	33.4	37.8	7.4	38.1	*	*	*	37.8	7.4	38.1	*	*	*
St. Vincent-															
Grenadines	24.4	0.4	25.9	20.0	6.1	20.5	*	*	*	20.0	6.1	20.5	*	*	*
Suriname	-2.0	0.8	-2.0	-4.5	9.8	-4.7	-9.7	10.7	-10.7	-2.3	5.1	-2.3	-17.3	-	-17.3
Trinidad and															
Tobago	6.0	6.6	5.0	10.6	11.7	8.9	7.0	4.8	16.0	12.0	19.3	6.4	31.0	68.0	12.3

Source: UN Trade Statistics

*Data included with St. Kitts-Nevis

Table 9a: PREFERENCES GRANTED CGCED COUNTRIES

	US CBI	EC LOME	CANADA CARIBCAN
Antigua-Barbuda	X	X	X
Bahamas	X	X	X
Barbados	X	X	X
Belize	X	X	X
Dominica	X	X	X
Dominican Republic	X	*	No
Grenada	X	X	X
Guyana	No	X	X
Haiti	X	*	No
Jamaica	X	X	X
St. Kitts-Nevis	X	X	X
St. Lucia	X	X	X
St. Vincent-Grenadines	X	X	X
Suriname	No	X	No
Trinidad and Tobago	X	X	X

* = observers

Table 9b: Other Western Hemisphere Beneficiaries of Preferences

US CBI	EC LOME	CANADA CARIBCAN
British Virgin Islands		Bermuda
Costa Rica		British Virgin Islands
El Salvador		Cayman Islands
Guatemala		Montserrat
Honduras		Turks-Caicos
Montserrat		
Netherlands Antilles		
Panama		

TABLE 10: TARIFFS ON ITEMS WHICH BECAME DUTY FREE IN 1984 UNDER THE CBI

TSUSA	DESCRIPTION	MFN TARIFF	TSUSA	DESCRIPTION	MFN TARIFF
MFN Tariff greater than 20%:			MFN Tariff 10% or less:		
14630	avocados	* 71.5	68580	electrical capacitors	10.0
42788	ethanol	* 69.4	75031	brooms	10.0
54652	glassware	41.0	73165	artificial baits	9.9
16536	fruit juice	* 36.6	13760	tomatoes	* 9.9
14832	melons	35.0	17045	filler tobacco	* 9.5
16914	rum	* 25.7	41214	dermatological agents	9.1
17060	strap tobacco	* 20.9	41222	analgesics	8.5
			19218	cut roses	8.0
MFN Tariff between 10-20%:			24023	plywood	8.0
			16546	pineapple juice	* 7.2
14828	watermelons	20.0	68610	resistors	6.0
16529	orange juice	* 19.3	60679	deformed concrete reinf	5.8
15005	fruit mixtures	17.5	60683	steel bars	5.5
14189	frozen vegetables	17.5	14719	lemons	* 5.4
13846	fresh vegetables	17.5	14731	oranges	* 5.1
17035	cigarette leaf	* 16.3	68787	electronic tubes	4.2
17040	filler tobacco	* 14.4	68508	tv apparatus	4.0
40818	trifluralin	13.5	18452	soy oil cake	* 3.7
14165	tomato paste, sauce	13.6	18485	animal feeds	3.0
14806	mangoes	* 13.4	17068	cigars	3.0
14722	limes	* 13.2	38456	veg. fiber suits	3.0
16913	rum	* 12.7	15570	honey	* 2.7
17032	filler tobacco	* 12.5	14896	pineapples	* 2.5
17072	cigars	10.5	14558	nuts	* 2.3
			10610	beef, veal	* 2.2
			14717	grapefruit	* 2.0
			60717	iron, steel wire rods	1.9
			11224	sardines	1.7
			60941	round wire	1.5

* Ad valorem equivalent of specific tariff using 1984 import values

Source: Tariff Schedules of the US (1985) and World Bank estimates

TABLE 11: CHANGES IN US SUGAR IMPORTS, 1980-1987
 (Shipments in short tons, value in \$ 000, and price \$ c/lb.)

	1980			1982/83 1/			1983/84 2/			1987		
	Shipments	Value	Price	Quota			Shipments	Value	Price	Quota		
				Shipments	Value	Price				Shipments	Value	Price
Barbados	60,346	35,187	0.292	19,975	7,990	0.200	21,226	8,703	0.205	7,538	3,166	0.210
Belize	71,910	39,143	0.272	31,378	12,551	0.200	33,447	13,713	0.205	10,333	4,340	0.210
Dominican Republic	552,968	254,745	0.230	507,423	202,969	0.200	527,810	216,402	0.205	159,318	66,914	0.210
Guyana	59,410	34,455	0.290	34,255	13,702	0.200	36,402	14,925	0.205	11,294	4,743	0.210
Haiti	9,884	5,308	0.269	16,551	6,620	0.200	16,490	6,761	0.205	7,277	3,056	0.210
Jamaica	66,422	30,179	0.227	31,020	12,408	0.200	33,461	13,719	0.205	10,408	4,371	0.210
St. Kitts	16,430	8,681	0.264	16,155	6,462	0.200	16,751	6,868	0.205	8,227	3,455	0.210
Trinidad	0	0	0	0	0	0	21,204	8,694	0.205	7,890	3,314	0.210
TOTAL	837,370	407,698	0.26341	656,757	262,703	0.200	706,791	289,784	0.205	222,285	93,360	0.210

VALUE OF 1980-1987 CHANGE IN QUOTAS (000 \$)

	Reduced Shipments in 1980 Prices	Reduced Shipments in 1987 Prices	Value of 1987 Quotas Compared to World Prices
Barbados	30,792	22,179	15,040
Belize	33,518	25,862	17,537
Dominican Republic	181,349	165,333	112,112
Guyana	27,905	20,209	13,703
Haiti	1,400	1,095	742
Jamaica	25,450	23,526	15,953
St. Kitts	4,334	3,445	2,336
Trinidad	0	(3,314)	(2,247)
TOTAL	304,749	258,336	175,176

1/ 10/1/82-9/30/83

2/ 9/26/83-9/28/84

3/ since 1983-84

SOURCES: 1980 UN TRADE STATISTICS; 1982-1987 QUOTA SHIPMENTS FROM US DEPT. OF AGRICULTURE STATISTICS

1982-1987 QUOTA SHIPMENT VALUES AND PRICE/LB. ESTIMATED USING US NON-RECOURSE LOAN RATE AVERAGES TO CALCULATE US MARKET STABILIZATION PRICES

Summary of Major Provisions of the CBI

Background

The Caribbean Basin Economic Recovery Act, often referred to as the Caribbean Basin Initiative (CBI), was enacted on August 5, 1983, and became effective on January 1, 1984. The program is to remain in effect for almost twelve years, until September 30, 1995. The essence of the CBI is to provide duty-free access to the US market for twelve years for a range of products exported by beneficiary Caribbean Basin countries. In addition to the duty-free treatment, the CBI includes tax incentives.

Country Eligibility

The CBI lists 28 countries (or territories) as eligible countries. Before receiving benefits of the CBI, an eligible country must be designated by the President of the United States as a beneficiary. Out of 28 eligible countries (or territories), 22 countries (or territories) are now designated as beneficiaries. These include: Antigua and Barbuda, Aruba, Bahamas, Barbados, Belize, Costa Rica, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Haiti, Honduras, Jamaica, Montserrat, Netherlands Antilles, Panama, St. Kitts-Nevis, St. Lucia, St. Vincent and Grenadines, Trinidad and Tobago, and the British Virgin Islands. Six eligible countries (or territories) not yet designated as beneficiaries by end-1987 included: Anguilla, Cayman Islands, Guyana, Nicaragua, Suriname, and Turks and Caicos Islands.

All of the CGCED countries are eligible countries of the CBI, but Guyana and Suriname are not yet designated as beneficiaries.

Product Eligibility

The CBI grants duty-free treatment to all commodities except for certain exemptions. Items exempted from the duty-free treatment are shown in the table.

Beef and veal items and sugar are subject to a special requirement. Namely, in order to qualify for duty-free treatment for sugar, beef and veal products, a country must submit an acceptable Staple Food Production Plan to the United States within 90 days from the date of its designation. Government officials state this provision was included in the CBI in order to ensure that the level of food production and nutritional levels in the country will not be impaired by changes in land use resulting from an increase in exports of beef and veal, and sugar. Under this provision, imports of beef and veal and of sugar from some Caribbean Basin countries (i.e., Antigua and Barbuda, Montserrat, Netherlands Antilles, St. Lucia, and St. Vincent and the Grenadines) have been denied preferential duty-free treatment.

Table 1: EXEMPTED ITEMS FROM THE CBI DUTY-FREE TREATMENT

Items	Tariff Range
Textiles and apparel articles which are subject to the MFA	5 ~ 40%
Footwear, handbags, luggage, flat goods, work gloves and leather wearing apparel	2 ~ 40%
Canned tuna	6 ~ 35%
Petroleum and products derived from petroleum	0.3 ~ 1.6%
Watches and watch parts which use material originating in a communist country.	5 ~ 20%

Except for the above exemption, any items of Caribbean Basin products can enter the United States duty-free. But the item must be grown, produced, or manufactured in a beneficiary country and meet "rules-of-origin" requirements: (i) the item must be imported directly from a beneficiary; (ii) at least 35 percent of the value of the item must be added in one or more beneficiaries; (iii) the product must be substantially transformed in one or more beneficiaries. For ethanol, since 1986 the feedstock (sugar or corn) must be increasingly from the CBI countries. More generally, for the 35 percent value-added requirement, US-made components may comprise 15 percentage points of the 35 percent.

Further, in February 1986, the President announced special treatment for CBI textile exports. The special arrangement is often referred to as "super 307" or "guaranteed access level (GAL)". Under this arrangement, the textile products which are manufactured from 100% US components are allowed to enter the United States outside of MFA quota levels. Some other restrictions (e.g., the US importer must have exported the prior components) also apply.

Tax Measures

In addition to the duty-free treatment, the CBI provides tax incentives for foreign investment in a beneficiary country. For example, business expenses incurred in connection with attending a convention in a beneficiary country are allowed deductions under the Internal Revenue Code. In order to obtain this special treatment, the beneficiary country enters into an agreement with the United States to exchange tax information.

Summary of Major Provisions of the Lomé Conventions

The Lomé Convention grew from twin roots. One was the pre-existing relationship of the EC Six with the African colonies of France, Italy and Belgium in the Rome Treaty, subsequently modified after they became independent by the establishment of the Yaounde Conventions. The other was the need to make provision for Britain's former colonies when the EC Six expanded to Nine. Some Commonwealth developing countries eventually joined the Yaounde states to sign the first Lomé Convention in February 1975. This ran until 1979 when it was succeeded by Lomé II (1980-85) and then Lomé III (1985-90).

The Conventions contain a number of distinctive features. They have been negotiated between two regional groups, and much is made by the parties to the Convention that it is a partnership of equals. This partnership is given substance in a set of institutions for continuing consultation on the implementation of the Convention. The Conventions also contain provisions on both aid and trade as well as the innovations of Stabex and Sysmin. Hence, the Lomé Conventions are much more extensive in scope than, for example, the EC's Generalized System of Preferences (GSP) under which the Dominican Republic and Haiti trade.

The EC's partners in the Lomé Conventions are all drawn from Africa, the Caribbean, and the Pacific (the ACP). The group now includes all sub-Saharan African states apart from South Africa and Namibia, plus the English-speaking Caribbean and former British and French colonies in the Pacific. It now numbers 66 members, having grown from the 46 original signatories of Lomé I. All the new entrants apart from Angola and Mozambique have joined at independence; Angola and Mozambique joined since Lomé III. In the Caribbean, the Bahamas, Barbados, Grenada, Guyana, Jamaica and Trinidad were all original signatories of Lomé I.

a. General Trade Provisions of the Conventions

In aggregate terms, the Lomé Convention provides relatively liberal access to the EC market for ACP exports. Some 99.5% of ACP exports enter the European market duty free. But ACP exports -- about three-quarters -- would enter the EC duty free with or without the Lomé Conventions under MFN terms. Of the remaining exports, a large proportion is accounted for by commodities that do face MFN tariffs, but which face little European competition. Lomé provides the ACP with a preference over other potential suppliers. Three obvious examples are cocoa, coffee, and bananas.

The trade concessions for industrial goods are particularly liberal. Lomé grants free access to all ACP industrial products as defined in EC customs regulations. While the ACP as a group are not important exporters

of industrial or manufactured goods, some of the members of the group are beginning to establish export-oriented industries.

The Lomé trade preferences are not available to Haiti and the Dominican Republic, but they benefit from the GSP. Both were given observer status for purposes of the convention in mid-1988. Different GSP regimes apply to the two states because Haiti is classified as a least developed country (LLDC) and benefits, therefore, from more liberal treatment. For those agricultural goods covered by the GSP (primarily tropical products) the EC offers LLDCs duty-free entry rather than mere tariff reductions plus (except in the case of tobacco) exemption from tariff quotas. For industrial goods it also offers LLDCs exemption from tariff quotas and duty-free entry for MFA commodities.

The GSP regime is significantly less generous than Lomé in respect to a number of agricultural commodities of special interest to the Caribbean - sugar, rum and bananas - which are subject to special regimes under Lomé.

b) Provisions on Commodities of Direct Relevance to CGCED

Rum

The provisions for rum are set out in a Protocol to the Conventions. It provides less favorable access to the EC than the norm under Lomé for industrial products, but more favorable entry than for many processed agricultural goods that compete directly with European production. Rum is produced in the French Overseas Departments, in Spain (the Canary Islands) and in Portugal (Madeira).

The Rum Protocol provides the ACP with duty-free access for rum, but only within a volume quota, above which fixed import levies are imposed. The global quota is sub-divided into national quotas for the various EC countries.

Under Lomé I and II the quota was determined according to historical performance. It was calculated each year by taking the best import level over the most recent three years and increasing it by 40% for imports to the UK (which takes the largest share of imported rum) and by 18% for imports to each of the other member states. In practice this averaged at a more or less stable mark-up of 31%. The total quota was divided among the member states according to their average percentage share of all rum imports over the most recent three years. In addition to this, the UK has a 'gentlemen's agreement' not to re-export to the other members any surplus it might have above its own consumption needs.

From Lomé III certain changes have been introduced at the request of the ACP. One was that an annual quota-floor of 170,000 hectolitres was agreed. This increases the security of the ACP preference. A second change concerned the national EC quotas. The formula has been changed to reduce the rate of growth of the UK quota relative to other national quotas. The mark-up for quotas is now 37% for the UK and 27% for the other member states, which in practice averages out at a 35% increase. This is 4% greater than the increase

allowed under Lomé II and allows a more rapid growth in the quota for Germany which is the principal market with development potential.

Bananas

The European market for bananas is still organized primarily on a national basis with different regulations applying to each of the member states, given legal effect through derogations applied under Article 115 of the Treaty of Rome. A major reason for, and effect of, these national differences is to give major preferences to traditional suppliers in the markets of UK, France and Italy. In the case of UK the traditional suppliers are the Windward Islands, Jamaica, and Belize (plus Suriname since 1975); in the case of France they are the Caribbean Overseas Departments of Guadeloupe and Martinique plus Cote d'Ivoire and Cameroon; and for Italy it is Somalia.

The preferences for the Overseas Departments derive from the Common Agricultural Policy while those for the ACP are enshrined in the Banana Protocol to the Lomé Convention which guarantees that "no ACP State will be placed, as regards access to its traditional markets and its advantages on those markets, in a less favorable situation than in the past or present." (Protocol number 4 article 1).

In the UK a government committee meets monthly to consider requests for import licences from non-traditional sources (i.e., Central or South American fruit). Such licenses are only issued if Caribbean fruit is unable to satisfy demand. In France, the banana market is completely regulated by a parastatal, the Committee Interprofessionnel Bananas which, as in the UK, ensures an absolute preference for DOM and ACP fruit. In Italy, a quota and high tariffs provide some protection for Somali fruit. As a result of these national schemes, CGCED exports are concentrated almost exclusively on the UK, which absorbed 99% of the total in 1986.

Sugar

The EC-ACP Sugar Protocol is attached to the Lomé Conventions although it is not part of them. The principal reason for this distinction is that it is of "unlimited duration" and therefore not subject to periodic renegotiation.

The Protocol provides certain specified ACP states plus India with a global quota of 1.3 million tons of sugar (white sugar equivalent) for which the EC guarantees to pay similar prices--well above the world price--to those offered to European sugar beet producers. The Protocol, which represents a major breach in the Common Agricultural Policy system of protection (which makes all other sugar imports financially unviable), was negotiated as part of Britains' accession to the Community. The imports are consumed almost exclusively in the UK market.

The EC is empowered to reduce permanently the quota of any Protocol signatory that fails to fulfill its deliveries unless it can claim force majeure. Quota reductions in this fashion have enabled the EC to extend

slightly the number of Protocol beneficiaries (principally to include Cote d'Ivoire and Zimbabwe) without having to increase the global quota, which is considered to be politically impossible.

The global quota is subdivided into allocations for each beneficiary state. The CGCED members that benefit from the Sugar Protocol are Barbados, Belize, Guyana, Jamaica, St. Kitts, and Trinidad. Suriname's quota was ended in 1981.

Rice

Rice is produced in the EC (primarily in Italy). Hence, like sugar, it is a CAP product and therefore normally subject to very stringent protection in the EC market. Most imports face a levy equal to the Community threshold price less certain fixed deductions. But for the ACP, 50% of the levy is replaced by an equivalent tax in the exporting state. Thus, as in the case of sugar, the ACP are accorded not only market access but also part of the economic rent from the high EC price levels.

The preference is volume constrained. Under Lomé I and II, the EC was entitled to suspend the preference if total imports from the ACP exceeded the average of the previous three years plus 5%. From Lomé III, this threshold has been replaced by a fixed quota that is significantly in excess of actual flows during Lomé II. For long grained husked rice it has been set at 122,000 tons annually, compared with average annual imports 1982-86 of 95,673 tons.

Garments

The ACP are not subject to the Multifiber Arrangement (MFA). In theory, their exports enter the EC without restriction of any kind. In practice, there have been a few instances of voluntary export restraints (notably against Mauritius in the UK and French markets) and there is surveillance of import levels. However, such restrictions have not proved to be a barrier to the development of established exporters although they may have had an unquantifiable disincentive effect on potential new entrants. Haiti was also exempt from MFA quotas in the period covered by this report.

Summary of Major Provisions of CARIBCAN

In June 1986, a new Canadian preferential import access program known as CARIBCAN (Bill C-111, an Act to amend the Customs Tariff) became effective. This program provides duty free access to members of the Commonwealth Caribbean for an unlimited period of time. The following countries and territories benefit: Anguilla, Antigua-Barbuda, the Bahamas, Bermuda, Barbados, Belize, British Virgin Islands, Cayman Islands, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Christopher-Nevis, St. Lucia, St. Vincent-Grenadines, Trinidad-Tobago, and the Turks and Caicos Islands.

The idea of a preferential trade arrangement with these islands is not new -- at the end of the last century, Canada granted a 25% trade preference to several of their exports. During the 1900's additional preferences were granted, usually as part of a British Preferential Tariff. Canada's GSP scheme, called the General Preferential Tariff, was established in 1974, and extended lower duties to a large variety of imports from virtually all developing countries.

There are several sectors which are excluded from the CARIBCAN arrangement because they are considered sensitive by Canadian interests. These sectors are listed in Table 1 below, along with the range of tariff rates which apply to each sector. For items not included in CARIBCAN, the duty reverts to (1) the General Preferential Tariff (GPT), (2) the British Preferential Tariff (BPT), or to (3) the Most Favored Nation Tariff (MFN), depending on what type of tariff treatment a country is eligible to receive, and which rate structure an item is eligible for.

Table 1: ITEMS EXCLUDED FROM CARIBCAN

<u>Sector</u>	<u>Canadian Tariff Item</u>	<u>Tariff Range (% ad valorem)</u>	
		<u>MFN</u>	<u>Preferential</u>
Textiles & Clothing	50-63, 65	10.3-25.0	0-20.0
Footwear	64	9.2-25.0	0-13.0
Leather Garments	42.03.10	22.5	15.0
Luggage & Handbags	42.02, 46.02	8.0-17.5	5.0-11.5
Lubricating Oils	27.10.00.20, 34.03.11.10, 34.03.19.10	8.0 " "	5.0 " "
Methanol	29.05.11.00	10.0	5.0

The lowest of the types of rates is the GPT; the next higher is the BPT; the highest is the MFN rate. Not all items have a tariff rate under each type of tariff preference. Wool dresses (6104.41.00), for example, only have an MFN tariff of 25%; all exports must pay this tariff. On man-made fiber blankets (6301.40.00), however, the tariff structure is a little more complicated. For countries designated as eligible for the GPT, the tariff is 15%. For those countries not eligible for GPT but eligible for BPT, the tariff is 18%. For countries not eligible for either scheme, the MFN rate of 22.5% is applicable. However, for countries designated least developed by Canada, these items, and all items which they export that are GPT items, there is no tariff.

There are, therefore, five different tariff structures which the world faces in its exports to Canada -- exports from least developed countries which face no tariffs on any GPT items; exports from the Commonwealth Caribbean which face no tariffs on items included in CARIBCAN; exports from countries eligible for the GPT which face tariffs that are two-thirds the MFN rate and have a preference over the BPT; exports from BPT-eligible countries which pay somewhat less than the MFN rate (primarily raw cane sugar from Australia); and finally, the regular MFN tariff rate.

There is thus a difference in the rate structure faced by the CGCED members. The Dominican Republic, Haiti, and Suriname are not eligible for CARIBCAN, but they are eligible for the GPT, as are all other CGCED members. Haiti, however, is also designated a least developed developing country by Canada, and therefore faces no tariffs in the Canadian market on any items which have a GPT rate.

CARIBCAN is not likely to make a very big difference in the amount of Canadian imports entering duty free from the Commonwealth Caribbean. Canadian officials have estimated that prior to CARIBCAN, 93% of the Commonwealth Caribbean's exports were entering Canada duty free, and since CARIBCAN's inception this figure has risen to 99.7%. As Table 2 shows, there is no difference between the Dominican Republic, which is afforded the least of the three preferential schemes given CGCED members, and other countries eligible for CARIBCAN:

Table 2: IMPORTS ENTERING CANADA DUTY FREE IN 1986 (%)

<u>Exporter</u>	<u>Preference Given</u>	<u>% Entered Duty Free</u>
Bahamas	CARIBCAN	85.6
Belize	CARIBCAN	95.6
Barbados	CARIBCAN	98.9
Dominican Republic	GPT	95.8
Haiti	Least Developed	31.7
Jamaica	CARIBCAN	94.5
Leeward-Windward Islands	CARIBCAN	89.9
Trinidad-Tobago	CARIBCAN	97.1

It is interesting to note that Haiti, which in theory is offered the greatest preferential treatment, exports the smallest proportion of items entering duty free. This is due to two factors. First, 39.1% of Canada's imports from Haiti were of clothing that received no duty free preference. Second, the remaining 29.2% of the imports from Haiti were eligible to enter Canada duty free, but did not, either because there was no accompanying paperwork certifying eligibility for preferential tariff treatment or because the rules of origin were not met.

The rules of origin differ according to what tariff structure is being used. For MFN and BPT rates, 50% of the import value must originate in the exporting country. For GPT, a minimum of 60% of the ex-factory price of the export must originate in a GPT-eligible country and/or Canada, and can be cumulative over several GPT beneficiaries.

The CARIBCAN rule of origin is the same as GPT, except the origin must be Caribbean Commonwealth countries and/or Canada, and is also cumulative. And finally, for least developed countries, the rule of origin is a more liberal 40% of the ex-factory price, which also can cumulate with other least developed countries and Canada.

Duty free benefits of the preference schemes may be withdrawn partially or totally from the beneficiaries at any time if the preferential imports cause or threaten injury to Canadian producers, as determined by the Tariff Board and Minister of Finance. If a preference is withdrawn, the duty reverts to the next higher preference rate for which a country/product is eligible, or if there is no other preference rate, then to the MFN rate.

Unlike the US CBI, CARIBCAN does not expire, although it is subject to review in the summer of 1988 to determine if it should be modified in any respect. In addition, since implementation of CARIBCAN required a GATT waiver, Canada will have to request a GATT extension when the waiver expires in 1992.

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