



March 2003

## Free Trade Area of the Americas: Some Implications for Jamaica

Tanisha Ennis<sup>†</sup>  
Research Services Department  
Research and Economic Programming Division  
Bank of Jamaica

### *Abstract*

The Free Trade Area of the Americas (FTAA) will see the integration of 34 countries by 2005. This paper analyses the implications of its creation for the Jamaican economy. Since 1994, Jamaica has made steady progress in its preparation for the FTAA. However, further macroeconomic adjustments are required, particularly in the public sector. It is important that both monetary and fiscal policies be resolutely focused on attaining an inflation rate of 2 to 3 per cent by 2005. Jamaica's exports are highly concentrated with certain sectors being vulnerable to competition. While there are new market opportunities in the FTAA, particularly in the area of cosmetics and beverages, some areas of the agricultural sector will be adversely affected by the increased competition.

Keywords: trade diversion, protection, competitiveness  
JEL Classification: **F13**

---

<sup>†</sup> I would like to thank Dr. Wayne Robinson, Mr. Courtney Allen, Dr. Charles Douglas, Mr. Robert Stennett and other members of the Research Services Department for their comments and suggestions. The views in this paper are not necessarily those of the Bank of Jamaica.

## ***CONTENTS***

<b>EXECUTIVE SUMMARY</b>	<b>2</b>
<b>1.0 INTRODUCTION</b>	<b>6</b>
<b>2.0 WHY A FREE TRADE AREA?</b>	<b>8</b>
<b>3.0 RECENT TRADE POLICY AGREEMENTS: AN OVERVIEW</b>	<b>15</b>
<b>3.1 COMMON MARKET OF THE SOUTH (MERCOSUR)</b>	<b>15</b>
<b>3.2 NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA)</b>	<b>19</b>
<b>4.0 THE PROPOSED FREE TRADE AREA OF THE AMERICAS (FTAA)</b>	<b>23</b>
<b>4.1 THE NEGOTIATIONS</b>	<b>26</b>
<b>5.0 IMPLICATIONS OF THE FTAA FOR JAMAICA</b>	<b>28</b>
<b>5.1 MACROECONOMIC PREPAREDNESS</b>	<b>28</b>
<b>5.2 MARKET OPPORTUNITIES</b>	<b>34</b>
<b>5.3 IMPLICATIONS FOR SELECTED JAMAICAN SECTORS</b>	<b>39</b>
<b>6.0 IMPLICATIONS FOR IMPORT TARIFF REVENUES</b>	<b>46</b>
<b>7.0 CONCLUDING REMARKS AND POLICY RECOMMENDATIONS</b>	<b>49</b>
<b>APPENDIX</b>	
<b>REFERENCES</b>	

## EXECUTIVE SUMMARY

- In 1994, the United States of America proposed the formation of the Free Trade Area of the Americas (FTAA), which will see the trade integration of Canada and the United States of America with the 32 developing countries of the Americas. This paper examines the implications for macroeconomic policy and sectoral adjustment of the proposed FTAA with special reference to Jamaica.
- The FTAA is to be established by 2005 with the goal of creating a comprehensive trading regime, reducing both tariff and non-tariff barriers to trade. The negotiations are guided by three principles. Firstly, the agreement will be consistent with the World Trade Organisation (WTO) rules. Second, the FTAA will co-exist with bilateral and sub-regional integration agreements in which the countries of the Western Hemisphere already participate. Thirdly, all countries will have to adhere to all sections of the agreement.
- The passage of the Trade Bill in the US Congress will enhance the pace of hemispheric trade negotiations. The current negotiations, however, will have to contend with the political and economic problems within Latin America and the commitment of some of the larger Latin American countries.
- While the theory points to gains from trade, there are constraints to the realisation of such gains by small states. These constraints arise mainly because of limited factor endowments and the fact that increased specialization makes an economy vulnerable.
- Small states like Jamaica will need to focus on economic diversification and should agitate for greater factor mobility within the trading bloc. The pursuit of economic

diversification within a free trade area (FTA) is not inconsistent with the idea of production based on comparative advantage. This, as such advantages no longer depends on natural endowments, but can be attained through the development of social capital and the application of technology.

- Economies, particularly the smaller ones, within the trading blocs of Latin America-Mercosur and NAFTA, have experienced economic expansion. However, the performance among Mercosur economies has been varied, characterised in most cases by higher unemployment. Rising unemployment was also evident in Mexico following NAFTA. The agriculture sector in both free trade areas declined, highlighting the general vulnerability of this sector.
- The countries that fared best were those, which had a relatively diversified economic structure and a more developed services sector. The experience of Mexico in NAFTA suggests that given Jamaica's geographical position, the economy can benefit significantly from the FTAA, provided that it becomes competitive and more diversified.
- Participation in the FTAA will pose significant challenges and offer equally significant opportunities to small economies such as Jamaica. The realization of the opportunities, however, depends on how both policy makers and civil society respond to the challenges. While there has been some progress in the preparations for the FTAA between 1994 and 2001, further adjustment in the macroeconomic environment is necessary.

- Using the established measures of preparedness for free trade, Jamaica has made some progress in the creation of a competitive economy, primarily in the areas of lower inflation and the pursuit of market oriented policies. However, on all macroeconomic criteria, which include fiscal sustainability, national savings and external debt, further adjustments will be necessary.
- Jamaica's medium term economic programme, outlined in the IMF's Staff Monitored Programme envisages gradual improvements in the fiscal accounts towards the desired benchmark by 2005/06. However, more ambitious targets will be required for inflation and national savings. Ideally, the programme should target inflation within the range of 2 per cent to 3 per cent by 2005/06 and an increase in the national savings rate from the current 19.4 per cent of GDP to over 30 per cent of GDP.
- The traditional export sectors, with the exception of mining, will face significant challenges in the free trade area. However, there will be opportunities in chemicals, cosmetics, plastics, beverages, agro-processing and textiles among others.
- The Government's trade policy speaks generally to the objective of export diversification, expanding domestic capital and market penetration. Specific initiatives are now required to maximise the potential of sectors, which would offer the greatest opportunities for export. Further, the attainment of the macroeconomic targets, particularly an inflation rate in line with that of our trading partner's over the next three years is critical to the creation of a competitive and viable economy within the FTAA. Some of the critical issues that Jamaica will have to negotiate effectively

are the transitional period, labour and capital mobility and special treatment for vulnerable and strategic sectors.

## **1.0 INTRODUCTION**

The 1990s have been characterised by a significant expansion in trade and economic integration around the world. This has to a large extent been influenced by the formation of the World Trade Organization (WTO), which has seen the gradual reduction of tariff and non-tariff barriers worldwide. In addition, the decade witnessed the formation of several free trade areas (FTAs) including the European Union (EU), The North American Free Trade Area (NAFTA) and the Common Market of the South (MERCOSUR). More significantly, in 1994, the United States of America proposed the formation of the largest FTA - the Free Trade Area of the Americas (FTAA). The FTAA will see the integration of Canada and the United States of America with the 32 developing countries of the Americas.

The negotiations on the FTAA, which is an expansion of the North American Free Trade Association (NAFTA), have brought into sharper focus a number of issues for small states such as Jamaica. A few of these issues, specifically the implications of tariff adjustments, have been assessed with respect to the impact on the Caribbean Community (CARICOM)<sup>1</sup>. The purpose of this paper is to examine some of the broader issues in the context of the proposed FTAA, with specific reference to Jamaica. The paper investigates the implications for macroeconomic policy and sectoral adjustment of the proposed free trade area. It also seeks to identify, within the constraints of limited information, the viable economic activities that the country can pursue.

The rest of the paper is organized as follows: The next section briefly looks at the theoretical rationale and the costs of free trade for small economies. This is followed in Section 3 by a brief description of the FTAs of the Americas, focusing on their economic performance before and after the advent of the free trade agreements. Section 4 summarizes the principal elements of the proposed FTAA and the major issues emerging from the

negotiations to date. Section 5 identifies the main implications for macroeconomic policy and selected sectors. It also identifies potential market opportunities for the economy. Some concluding remarks are given in section 6.

---

<sup>1</sup> Chaitoo (2002)

## 2.0 WHY A FREE TRADE AREA?

An association of countries with a specified trade policy regime is considered a FTA. That is, there is an agreed framework governing the exchange of goods and services between member countries. In its purest form, there are no tariffs or non-tariff barriers to trade among member countries. However, unlike a customs union, each country retains its own international trade measures vis-à-vis countries outside the FTA. Therefore, member countries receive preferential access to each other's market at the expense of non-members. If the agreement is open to accession, non-participating countries may become members of a FTA. Nonetheless, trade with outside countries is governed by bilateral treaties, which are usually consistent with WTO rules.

A FTA is not a single market, a common market or a customs union. A customs union is a FTA in which all countries administer a common external tariff. A common market or a single market on the other hand embraces a customs union and has the added feature of free mobility of factors. A single market economy therefore is a customs union that permits the free movement of goods, persons, services, and capital.

According to Ricardo (1817)<sup>2</sup>, there will be gains from trade if the participating countries focus on the production of goods for which they have a comparative advantage<sup>3</sup>. A country has a comparative advantage in the production of a good when it has a lower *opportunity cost* of producing the good. Correspondingly, a country has a comparative disadvantage in the production of a good that requires a greater sacrifice of some alternative good or goods, i.e. a higher opportunity cost, relative to another country. Comparative advantage therefore depends on the production frontier, defined by resource endowments

---

<sup>2</sup> David Ricardo (1817) *Principles of Political Economy and Taxation*, Chapter 7.

<sup>3</sup> Adam Smith motivated his arguments for free trade based on absolute costs –absolute advantage. However, the exposition provided by Ricardo is accepted as a much stronger basis.

and the state of technology. Thus, the gains from trade arise out of differences in factor endowments particularly labour productivity.

Viner (1950) indicated that freer trade among countries is deemed desirable as it promotes greater economic efficiency and welfare through greater specialization. Through free trade, producers and consumers have the opportunity to shift from inefficient, protected suppliers to lower-cost foreign suppliers.

Heckscher (1919) and Ohlin (1933) identified capital endowment as a critical factor determining the distribution of trade. Assuming there are no impediments to trade, the Heckscher-Ohlin theory predicts that, because of comparative advantage, capital rich countries will export capital-intensive goods and labour rich countries labour intensive goods.

In general, trade theory argues that by concentrating limited resources in producing goods for which there is a comparative advantage, societies can increase consumption and welfare in a context where these commodities are traded freely. The improvement in welfare arises from the fact that access to lower cost goods enhances consumer surplus relative to the loss in producer surplus and government revenues.

The gains from free trade, however, depend on the trade off between the degree of trade creation and trade diversion, that is, if more trade is created for the member rather than diverted from the member. More formally, trade creation occurs if, prior to the formation of the FTA, potential members were restricted in producing a commodity, whereas after the establishment of the FTA they become suppliers to the FTA. Trade diversion on the other hand, occurs when trade is shifted from a high cost previously protected supplier to a lower cost supplier after the formation of the FTA.

Schott (1989) noted that trade diversion in and of itself is not necessarily undesirable. He argued that growth could emanate from trade diversion as producers face lower input costs. The welfare gains from trade creation and trade diversion are demonstrated in Figure 1A.

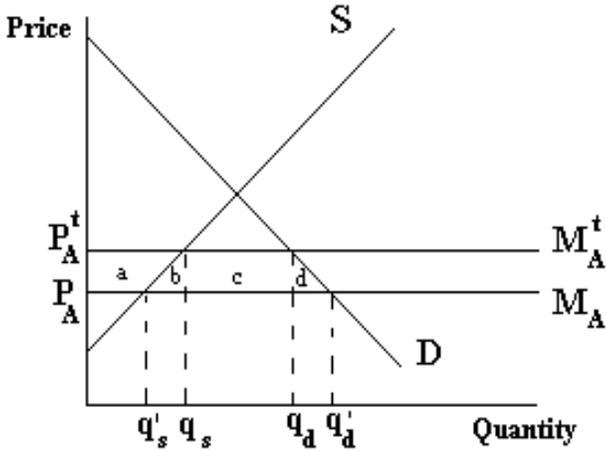
In Figure 1A, we assume a two-country world, comprising a small economy with aggregate supply and demand given by S and D, and a larger, lower cost economy, which exports  $M_A$  to the small economy. The demand in the smaller economy is  $q_d$ , while the supply (short run) is  $q_s$ . The country then imports  $q_d - q_s$  at price<sup>4</sup>  $P_A^t$ . With the implementation of a FTA, the tariff (t) is removed resulting in the import price falling to  $P_A$ . Domestic production declines to  $q_s^1$ , consumption increases to  $q_d^1$ , and imports to  $q_d^1 - q_s^1 > q_d - q_s$ . The increase in imports by the small economy creates an expansion in trade between the two countries –hence a trade creating FTA. The welfare impact of the *trade creating* FTA for the small country is as follows:

Consumer Surplus (Gain to consumers)	a+b+c+d
Producer surplus (Gain to Producers)	-a
Gain to Government	-c
Gain to nation	b+d

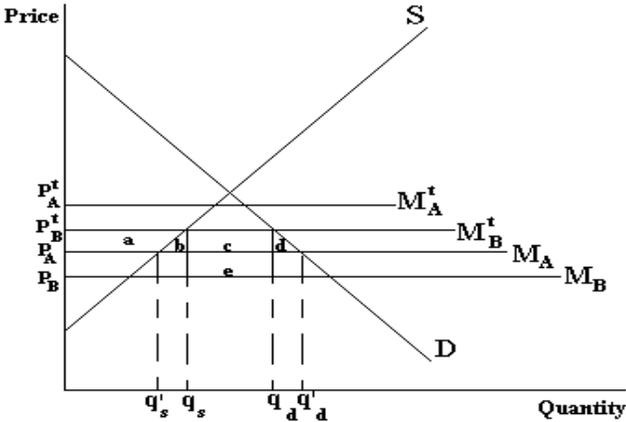
---

<sup>4</sup> The country is assumed to be a price taker, given its size relative to the rest of the world.

**Figure 1A:** Trade creating free trade area.



**Figure 1B:** Trade diverting free trade area



Although there is a loss to domestic producers (-a) and the government (-c), there is a net gain to the society (b+d). The magnitude of the gain from the FTA will vary with the size of the tariff and the slope of the S and D curves (i.e. price elasticity of supply and demand). The gains from trade will be larger the less developed is the domestic production process, as the supply curve would be steeper.

In Figure 1B we assume a third country B with a lower cost of production, which then gives rise to the possibility of a *trade diverting* FTA. Before the FTA, the small country imposes a higher tariff on  $M_A$  imports such that imports from country B is relatively cheaper i.e.  $P_B^t < P_A^t$ . Therefore, domestic consumption with tariff is  $q_d$ , production is  $q_s$  and imports are  $q_d - q_s$ . If the small country forms a FTA with the larger economy only, thereby removing the tariff (t) on imports from this source, the price of imports falls to  $P_A$ , which is lower than country B's price. The supply from country A now displaces the supply from B. Domestic consumption is now  $q_d^1$ , production  $q_s^1$  and imports  $q_d^1 - q_s^1$ . Thus the formation of the FTA has diverted trade  $q_d - q_s$  from country B. Welfare impact of the trade diverting FTA for the small country is as follows

Consumer Surplus (Gain to consumers)	a+b+c+d
Producer surplus (Gain to Producers)	-a
<u>Gain to Government</u>	<u>-c-e</u>
Gain to nation	b+d-e

With the trade diverting FTA, the producers and the government in the importing country lose as in the case of a trade creating FTA. However, the small country gains as a nation if area b+d is greater than e. This will result if gains to the consumers outweigh the cost to the government. It is not possible to ascertain whether or not the economy is better or worse off from an FTA in the trade diverting case. Nonetheless, it is important to note that welfare gains are largest from an FTA comprised of low cost producers of goods and services.

A key implication of trade theory, however, is that the gains from trade depend on relative size and factor endowments. Schiff (1996) shows that a small country gains from becoming a member of a large bloc as against a large member of a small bloc. It has been noted by Schott (1989) that FTAs among developed countries have been more successful

than those among developing countries. Domestic production in less developed economies will be particularly vulnerable to international competition. However, the reduction of barriers to trade will boost the opportunities for export.

Nougueria (1997) notes that, within the Caribbean, relatively limited resource endowments have resulted in relatively narrow export base. Most of the countries within the region export agricultural products, in particular, sugar, banana and other labour intensive products such as garments. Given the concentration of exports in primary products, these economies are vulnerable to adverse terms of trade shocks. Therefore, production and trade based on a narrow range of goods defined by comparative advantage may not necessarily enhance welfare. In engaging in free trade these economies therefore need to attempt to diversify their exports.

The improvement in welfare from free trade derives mainly from the overall increase in consumption that specialization allows. However, increased specialization implies some redistribution of income. Thus, from the perspective of welfare, the society will be better off if there is an increase in resources such that those who are displaced can be compensated. This argument indicates that “there is no guarantee that every consumer will be better off under free trade even though the country as a whole will be better off.”<sup>5</sup> To compensate for the loss to those consumers, an active policy of redistribution in affected economies might be necessary.

Another approach entails greater factor mobility (inclusive of capital) within a FTA and for domestic policy to seek to diversify the economy. The latter is consistent with production and trade based on comparative advantage, once it is recognised that comparative advantage does not necessarily arise from natural endowments, but can be acquired through technology. Factor mobility will allow the movement of labour and other

factors into other areas of the FTA. Enhancing factor mobility, in particular labour mobility, however, requires a trainable and well-trained labour force.

In summary, free trade and an FTA can enhance welfare. However, the benefits are limited by resource endowments and allocation and the fact that specialization can make an economy vulnerable. In this regard, within the context of freer trade, policy should also focus on diversifying the economy and improving factor mobility within the FTA.

---

<sup>5</sup> Sodersten (1992) page 22.

### **3.0 RECENT TRADE POLICY AGREEMENTS: AN OVERVIEW**

Broadly speaking, trade agreements consist of bilateral and multilateral arrangements under the auspices of the WTO and FTAs. Among the FTAs are the European Union, NAFTA, CARICOM and MECUSOR. Whilst NAFTA consists of both developed and developing economies, the other two free trade areas in the Western Hemisphere consists mainly of developing countries. This section reviews the performance of and challenges faced by smaller member economies of MERCUSOR and NAFTA<sup>6</sup>.

#### **3.1 COMMON MARKET OF THE SOUTH (MERCOSUR)**

On 26 March 1991, the Treaty of Asunción was signed by Argentina, Brazil, Paraguay and Uruguay establishing The Common Market of the South (MERCOSUR). Its principal objectives were to improve economic activity by enhancing competitiveness, enlarging markets and accelerating economic development through the efficient use of available resources. Additionally, the agreement sought to preserve the environment, improve communications, coordinate macroeconomic policies and to harmonize the economies of the member countries.

Sepúlveda and Aguirre (1997) noted that Mercosur was successful as a regional economic integration scheme. They indicated that intra-Mercosur export of goods and services increased to US\$16.1 billion in 1996 (21.5 per cent of total exports of the member countries) from US\$4.1 billion in 1990 (8.9 per cent of total exports). Approximately 52 per cent of Paraguay's exports were exported to Mercosur (based on 1994 data) and 45 per cent for Uruguay (based on 1995 data). In 1995, Argentina's exports to Mercosur was 50 per cent higher than that to Europe, while for Brazil over 25 per cent of its total exports were to

Mercosur. The degree of interdependence among members of Mercosur was the highest among the various integration schemes in Latin America and the Caribbean.

However, the degree of economic integration has varied among the four countries. Brazil is Paraguay's largest trade partner and, as such, Paraguay is mostly affected by fluctuations in the Brazilian economy. Similarly, economic volatility in Argentina affects Uruguay more significantly than the other members of Mercosur given that Argentina is Uruguay's major market for exports and tourists.

In this context, the impact of Mercosur on economic performance has been varied. In Argentina, Uruguay and Brazil, GDP growth between 1991 and 2000 accelerated to averages of 4.2 per cent, 2.9 per cent and 2.3 per cent, respectively, compared with average growth rates of -1.1 per cent, 0.8 per cent and 2.2 per cent over the 10-year period prior to the formation of the trading bloc (see Tables 1 & 2). In the case of Paraguay, although economic growth did not accelerate between 1991 and 2000, the growth rate was maintained above 1.8 per cent (see Tables 1 & 2). Overall economic growth for all Mercosur members was more stable in the post-Mercosur period.

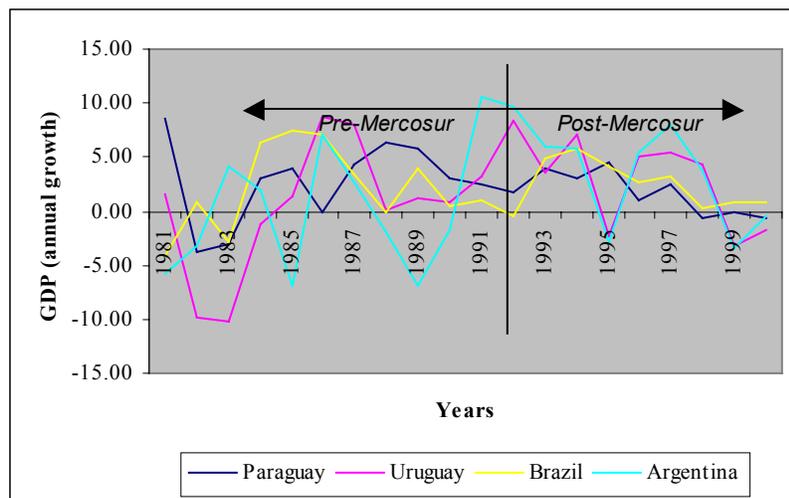
In spite of the economic growth, the increased interdependence of the economies in the context of the free trade area implied a general loss of jobs. For Argentina and Brazil in particular, the average unemployment rate rose to 11.6 per cent and 5.4 per cent, respectively, compared with averages of 5.9 per cent and 3.5 per cent in the pre-Mercosur period.

---

<sup>6</sup> I chose to focus on these FTAs, as against the European Union, given the similarities of the countries with Jamaica.

Table 1:	Selected Statistics on Economic Performance in Mercosur			
	Paraguay	Uruguay	Brazil	Argentina
	<i>Post-Mercosur (1991 - 2000)</i>			
Average Growth	1.78	2.94	2.32	4.24
Standard Deviation (GDP Growth)	1.84	4.02	2.18	4.97
Unemployment rate	5.79	9.87	5.43	11.63
	<i>Pre-Mercosur (1985 - 1990)</i>			
Average Growth (GDP Growth)	2.84	0.08	2.23	-1.06
Standard Deviation	3.65	6.60	3.62	4.87
Unemployment rate	5.68	8.98	3.46	5.89

**Figure 2: Annual growth rates (Mercosur)**



The growth in unemployment largely stemmed from the changes that occurred in the structure of these economies. For Paraguay, the main sectors include manufacturing, agriculture, and tourism (see Table 2), while Uruguay is relatively dependent on finance, tourism and manufacturing. The Brazilian economy is more industrialized, with banking also playing a significant role. Mercosur has seen a general decline in the relative importance of the manufacturing sector in all the countries. This however could reflect the impact of NAFTA.

**Table 2: Sectoral Contribution to GDP (MERCOSUR Member Countries)**

Country	Uruguay		Paraguay		Brazil		Argentina	
	1980-1990	1993-2000	1980-1990	1993-2000	1980-1990	1994-2000	1980-1990	1993-2000
Agriculture, hunting, forestry and fishing	11.9	10.9	26.7	26.9	9.7	7.3	8.0	4.4
Mining and quarrying	0.2	0.3	0.4	0.5	1.4	1.1	2.4	1.4
Manufacturing	25.7	19.3	16.7	14.5	26.0	19.4	26.7	14.3
Electricity, gas and water	3.3	3.8	2.7	5.6	2.4	2.7	1.9	1.9
Construction	2.9	3.5	5.8	5.4	6.6	8.4	6.0	4.6
Wholesale and retail trade, restaurants and hotels	12.4	14.0	26.6	24.4	7.8	6.7	16.8	13.6
Transport, storage and communications	6.7	10.3	4.4	4.9	4.7	4.8	4.5	6.5
Finance, insurance, real estate and business services	23.1	21.3			15.8	18.4	14.6	16.5
Community, social and personal services	18.1	15.4	13.9	15.1	20.8	22.0	18.9	15.4
Government services	2.3	0.0	4.3	5.5	9.4	14.1	0.0	4.4
<b>Gross Domestic Product</b>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: ECLAC Statistical Yearbook (2001)

With respect to agriculture, the two larger economies appear to have gone through more significant adjustments, compared with the smaller two, probably reflecting their relative growth performance as well as improved opportunities for specialisation. The agricultural sector in Paraguay appears to have benefited from the improved market access facilitated by Mercosur.

In terms of economic performance Uruguay has gained most<sup>7</sup> in contrast to Paraguay. All the countries adopted market-oriented reforms and were successful in stabilizing their economies. The differences in performance therefore, can be attributed to the fact that Paraguay experienced significant real appreciation and maintained a relatively less diversified agrarian economic structure.

Of note, the economic performance of the countries within Mercosur has, to a large extent, been influenced by the shocks to the two larger economies and other extra regional shocks, namely the Mexican, Asian and Russian crises and the subsequent contagion effects throughout Mercosur.

In general, Mercosur had a positive impact on its constituent economies. Regional trade increased substantially while GDP growth accelerated. However, the higher growth was associated with increased unemployment, suggesting that welfare may have been adversely affected by the rationalisation process throughout the region. Additionally, while there was an overall increase in GDP, there was a shift in the structure of economic activity among the member countries, and the increased trade and financial ties made the countries more vulnerable to contagion. Further, the more diversified service oriented economies tended to gain more from integration.

### **3.2 THE NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA)**

In January 1994, the free trade area comprising Canada, the United States of America and Mexico, was established. Combined, the three countries are populated by over 388 million people and occupy a land area of 2.3 million square kilometres, making it the second largest FTA in the world. Trade restrictions were removed from many commodities, including motor vehicles and automotive parts, computers, textiles, and agriculture. The treaty also protected intellectual property rights (patents, copyrights, and trademarks) and outlined the removal of restrictions on investment among the three countries. Guidelines for minimum wage, working conditions, and environmental protection were stipulated in the supplemental agreements signed in 1993. Membership in NAFTA requires adherence to the rules of accession agreed upon by the three member countries, which basically include participation in negotiations and approval by member countries.

---

<sup>7</sup> The strong growth performance for Argentina largely occurred during the early part of the 1990s. Since then Argentina has been in recession.

The disparities in income, factor endowments and comparative advantage have raised questions as to the impact of NAFTA on the member countries. In this section the impact on Mexico, the least developed country in the group, is considered.

The Mexican economy has performed very well during the post NAFTA period, despite the financial crisis of 1995. The advent of NAFTA served to consolidate and strengthen the outward looking market oriented reforms that were undertaken in the Mexican economy in the mid to late 1980s. Since NAFTA, economic activity, foreign investment and exports, particularly to the US, have increased significantly.

Economic growth in Mexico averaged 3.5 per cent, relative to 2.6 per cent in the ten years prior to NAFTA (see Table 3). One of the main sources of growth was export, which increased to 28.7 per cent of GNP in 1998 from 11.5 per cent in 1988. Valdes-Ugalde (2000) notes, however, that the value added in exports is relatively small as most of the inputs are imported. With regards to foreign direct investment, Córdova (2001) found that annual flows rose from \$3.5 billion during the period 1987 to 1993 to \$11.0 billion in the post NAFTA era. He pointed out that the increase in FDI flows were significant in a context where there were no major privatisation projects during the period

The elimination of tariff in the US market gave Mexico an advantage over its competitors. Cordova (2001) noted that Mexican goods entering the US and Canada faced a decline in the trade-weighted tariffs<sup>8</sup> from 4 per cent in 1994 to 0.4 per cent in the post NAFTA period. This reduction in the trade-weighted tariffs has made imports of Mexican commodities to the United States cheaper, relative to other countries, even the low cost Asian countries. Chinese producers, for example, face an effective tariff of 2.0 per cent on electronic goods, while Mexican electronic producers face an effective tariff of 0.1 per cent.

---

<sup>8</sup> The weighted average of a country's tariffs, where the weights are the value of imports.

The tariff concessions received by Mexico and the increase in exports to the North American market have raised concerns that FDI flows are reflective of NAFTA induced trade diversion (Córdova (2001)). Mexican commodities have replaced more efficient producers from the rest of the world as a result of the FTA agreement, which in turn has attracted the aforementioned level of FDI to Mexico.

Table 3: Selected Statistics on Mexico's Economic Performance	
<b>Mexico</b>	
<i>Post-NAFTA (1995-2000)</i>	
Average Growth	3.50
Standard Deviation	1.43
Unemployment rate	4.65
<i>Pre-NAFTA (1985-1994)</i>	
Average Growth	2.56
Standard Deviation	0.48
Unemployment rate*	3.15

\*Data from 1991 to 1994

Sectoral performance in Mexico was varied under NAFTA. Between 1993 and 1999 the agricultural sector grew by less than 10.0 per cent, while agricultural exports expanded by approximately 60.0 per cent. This compares with a growth rate of 190.0 per cent for manufactured exports over the period. The lower growth in agriculture has coincided with a fall in the sector's share of GDP (see Table 4). Poor access to credit and insurance, lack of experience in international marketing, deficient irrigation, among other factors, may have prevented farmers from benefiting from the agreement<sup>9</sup>.

The manufacturing sector on the other hand grew by approximately 36 per cent over the period 1993 to 1999, and was reflected in the real growth of almost 190 per cent in exports. Under NAFTA, the structure of Mexican exports shifted from oil to manufactured goods. Loria (2000) notes that whereas crude oil and natural gas exports accounted for 72

---

<sup>9</sup> Op cit

per cent of exports in the early 1980s, by 1998 manufactured goods accounted for 90.2 per cent.

Overall, the net effect of NAFTA on the Mexican economy seems to be positive. Moreover, the impact has been greatest in the Border States, where real GDP grew by almost 24 per cent between 1993 and 1998, compared to 14 per cent in Central Mexico. The increase in GDP in the Border States was more than that in Central Mexico due to the relative ease with which US-based firms could relocate to this region. The preferential access to the world’s richest economy made Mexico a gateway to the US for a number of external investors. Thus, given its geographical position, competitive wages combined with its access privileges, the Mexican experience in NAFTA is one in which a smaller economy has benefited significantly from its alliance with a larger neighbour.

<b>Table 4: Sectoral Contribution to GDP</b>		
<b>Country</b>	<b>Mexico</b>	
<b>Period</b>	<b>1980-1988</b>	<b>1995 - 2000</b>
Agriculture, hunting, forestry and fishing	6.2	5.55
Mining and quarrying	1.3	<b>1.28</b>
Manufacturing	16.8	19.16
Electricity, gas and water	1.3	1.55
Construction	4.6	3.93
Wholesale and retail trade, restaurants and hotels	19.9	19.08
Transport, storage and communications	8.2	9.71
Finance, insurance, real estate and business services	12.3	14.69
Community, social and personal services	20.6	19.59
Government Services	6.2	0.00
Other*	2.7	5.5
<b>Gross Domestic Product</b>	<b>100.0</b>	<b>100.0</b>

*\* Includes imputed bank service charges, net indirect taxes, and other non-comparable sectors*

#### **4.0 THE PROPOSED FREE TRADE AREA OF THE AMERICAS (FTAA)**

During the Miami Summit of the Americas in December of 1994, the United States proposed expanding NAFTA to include the entire Latin America and the Caribbean. This led to an agreement among the trade ministers of the Western Hemisphere, except Cuba, to commence negotiations on the establishment of the FTAA. The FTAA is to be established by 2005 with the goal of creating a comprehensive trading regime, reducing both tariff and non-tariff barriers to trade among the thirty-four democratic states of North and South America.

Following three years of preparatory work, negotiations on the FTAA began in May 1998. During the preparatory period, there were consultations on the negotiating agenda, which involved extensive pre-negotiations in twelve working groups, technical support from a tripartite committee<sup>10</sup> of international organisation, and four ministerial meetings. In March 1998, the terms of reference for the FTAA negotiations were finalized in the San José Declaration of trade ministers. The following month, the summit leaders reconvened in Santiago, Chile, and officially launched the FTAA negotiations.

Nine negotiating groups were established, each specializing in different areas of trade. These areas include market access, investment, services, government procurement, dispute settlement, agriculture, intellectual property, antidumping, subsidies and countervailing duties and competition policy. In addition, the Consultative Group on Smaller Economies, The Committee of Government Representative on the Participation of Civil Society, and the Joint Government-Private Sector Committee of Experts on Electronic Commerce and the Trade Negotiations Committee (TNC) comprising Vice-ministers of

---

<sup>10</sup>Tripartite committee: The Organization of American States (OAS), the Inter-American Development Bank (IDB) and the United Nations Economic Commission for Latin America and the Caribbean (ECLAC).

trade, were also created. Finally, an administrative secretariat was created to provide logistical and administrative support.

The negotiations are being guided by three principles. Firstly, the agreement will be consistent with the rules and disciplines of the WTO. Second, the FTAA should be able to co-exist with bilateral and sub-regional integration agreements in which the countries of the Western Hemisphere already participate<sup>11</sup>. Thirdly, all the sections of the agreement will be binding.

Compared to the other FTAs in Section 2, the proposed FTAA will be obviously larger, with land area of 39.6 million square kilometres, a population of over 763 million and gross domestic product (GDP) in 1996 of approximately US\$8.3 trillion (at 1990 constant prices) encompassing countries with significant economic disparities (see Table 5). The United States, Canada and Mexico are the dominant members of the FTAA, accounting for 76.0 per cent, 6.2 per cent and 2.7 per cent of total GDP, respectively. On the other hand, CARICOM, of which Jamaica is a member, occupies the smallest land area with a relatively small population, and accounts for only 0.2 per cent of total GDP within the group. With these disparities in mind, along with disparities in natural and technical endowments, among others, CARICOM member states will face challenges in effectively participating in the negotiations, as well as restructuring their economies so as to maximise the benefits of the free trade agreement.

---

<sup>11</sup> See Table I in appendix

Table 5: FTAA Member Countries (Selected Statistics)

Country / GROUP	Area [km <sup>2</sup> ]	Population 1995 [Million]	Population Density [People/km <sup>2</sup> ]	GDP 1997 [Mill. of 1990 US\$] *
<b>MERCOSUR</b>				
Argentina	2776889	34,267	12,3	232,310
Brazil	8511965	161,469	19,0	529,195
Paraguay	406752	4,894	12,0	7,576
Uruguay	176215	3,14	17,8	11,072
<b>ANDEAN COMMUNITY</b>				
Bolivia	1098581	7,414	6,7	7,323
Colombia	1138914	35,101	30,8	64,412
Ecuador	270670	11,476	42,4	16,621
Peru	1280219	23,855	18,6	53,836
Venezuela	912050	21,491	23,6	74,423
<b>CARICOM</b>				
Antigua and Barbuda	442	0,065	147,5	n.a.
Bahamas	13935	0,276	19,8	3,317
Barbados	430	0,261	607	1,874
Belize	22965	0,217	9,4	513
Dominica	751	0,082	110,0	n.a.
Grenada	344	0,094	274,7	n.a.
Guyana	215000	0,834	3,9	634
Jamaica	10991	2,547	231,8	4,253
St. Kitts and Nevis	261	0,049	187,7	n.a.
St. Lucia	616	0,049	79,5	n.a.
St. Vincent and the Grenadines	389	0,113	290,5	n.a.
Suriname	163265	0,409	2,5	308
Trinidad and Tobago	5128	1,306	254,7	5,730
<b>CACM</b>				
Costa Rica	50900	3,424	67,3	7,441
El Salvador	21040	5,768	67,3	7,663
Guatemala	108889	10,621	97,5	10,411
Honduras	112088	5,663	50,5	4,006
Nicaragua	130000	4,140	31,8	2,137
<b>NAFTA</b>				
United States	9629091**	278,059**	28,9	7247700**
Canada	9976140**	31,592**	3,2	694000**
Mexico	1972547	90,320	45,8	315,563
<b>OTHER</b>				
Chile	756630	14,242	18,8	57,861
Cuba	110922	10,94	9,9	n.a.
Dominican Republic	48734	7,921	162,5	8,556
Haiti	27750	7,180	258,7	1,600
Panama	77082	2,631	34,1	7,357

\*Source: Inter American Development Bank of Jamaica,

\*\*Source: World Fact Book

n.a. = not available. See additional notes in appendix.

Unlike the EU, there are no economic preconditions for participation in the FTAA. The basic accession policy applies, which requires negotiations among the thirty-four potential member countries. Given that 26 of the 34 potential FTAA countries are classified as developing, it is necessary that both the industrialized countries (USA and Canada) and multilateral organizations give priority to assist the developing states in building their capacities to conduct trade related research and negotiate trade issues. This will require the allocation of both financial and human resources to national and sub regional institutions.

The passing of the Trade Promotion Authority Bill in the US on 6 December 2001 added some impetus to the negotiating process, as it gave greater authority to the US negotiators. However, there are still concerns within the US about freer trade within the hemisphere, such as the threat to jobs and natural resources. Further, the economic and political problems within Latin America will add another dimension to the negotiating process.

#### **4.1 THE NEGOTIATIONS**

CARICOM, through the regional secretariat, has participated in the FTAA negotiations on the first draft of the agreement. Countries are now involved in negotiations in the respective negotiating groups. However, CARICOM countries have been facing difficulties in participating in the negotiations in light of the need to act and respond at three levels with limited financial and human resources. At the first level, individual countries will need to formalise national positions for approval by the CARICOM Council for Trade and Economic Development (COTED) in a reasonable timeframe. Secondly, CARICOM needs to formalise regional positions, which involves consistent coordination and monitoring of the fourteen CARICOM states. At the third level, CARICOM countries need

to acquire a solid negotiating base to enable appropriate responses to FTAA obligations/requirements within agreed/set time frames and effective action at the negotiating table.

In this regard, CARICOM strategy involves first establishing a strong and united regional front, as well as forging strategic alliances with other groupings such as the Andean Community and the Dominican Republic and building strong negotiating positions around the FTAA principles. Following this strategy, CARICOM has, with some success<sup>12</sup>, advocated that special and differential treatment be an integral part of the FTAA negotiating process and has advanced strategies for its incorporation in the FTAA agreement. In this context, the region has been negotiating for: (i) lower levels of obligations on the issue-by-issue or product-by-product basis; (ii) transitional periods and asymmetrical phrases; (iii) exemptions from commitment in certain areas; (iv) flexibility in the application and implementation of disciplines; (v) technical assistance and (vi) means of redressing the imbalance of power in the negotiating process.

In terms of the status of the negotiations to date, agreements have been reached on four principles. Firstly, negotiations regarding goods and services negotiations are to be consistent with the General Agreement of Trade and Tariffs (GATT) 1994 and the General Agreement of Trade in Services (GATS). Secondly, the negotiating process and development of proposal and offers must respect the guidelines relating to smaller economies. Thirdly, there should be progressive liberalization over a period of five years for agricultural and non-agricultural goods, services, investment and government procurement and lastly; offers must be contingent on the overall results of the negotiations.

---

<sup>12</sup> At the April/May 2002 Venezuela TNC Meeting, CARICOM gained approval for special and differential treatment for smaller economies.

Discussions on market access were initiated on 15 May 2002, while the following timetable will govern the presentation of offers for agricultural and non-agricultural products, services, investment, and government procurement<sup>13</sup>:

- **Presentation of offers:** 15 December 2002 to 15 February 2003.
- **Submission of requests for improvements to the offers:** 16 February 2003 to 15 June 2003.
- **Initiation of process for the presentation of revised offers:** 15 July 2003.

Of note, a country may have access to the offers made by the other countries only after it has submitted its own offer. To date, Jamaica has submitted offers on Market Access and Investment to the RNM, which will then be consolidated into a regional position. Submissions on the other areas are currently overdue.

## **5.0 IMPLICATIONS OF THE FTAA FOR JAMAICA**

Participation in the largest and most diverse free trade area in the world will pose significant challenges and offer equally significant opportunities to small economies such as Jamaica. The realization of the opportunities, however, depends on the response of both policy makers and the private sector to the challenges. These challenges in the main derive from the relative size and level of development of the economy, which may influence the country's ability to effectively negotiate, and the degree of macroeconomic and sectoral adjustment required. In this context, the analysis looks at the implications of the FTAA both at the macroeconomic and sectoral levels. Additionally, the paper seeks to identify some of the opportunities that may arise from the FTAA.

---

<sup>13</sup> Technical assistance is available to the countries to prepare offers on government procurement.

## 5.1 MACROECONOMIC PREPAREDNESS

In order to assess the degree of adjustment in the current macroeconomic policy mix required for the FTAA, a “readiness indicator” developed by Schott (2001), comprising both macroeconomic and microeconomic variables, was employed. According to Schott (2001), the indicator is designed to guide policy makers in the restructuring of their economies that would inevitably result from open competition with foreign suppliers<sup>14</sup>. While not fully scientifically determined, his benchmarks have been widely accepted as an appropriate gauge of the degree of preparedness of an economy for free trade.

The macroeconomic indicators include price stability, budget (fiscal) discipline, national savings, external debt, and exchange rate stability. The microeconomic indicators include central government’s reliance on market-oriented policies and trade taxes and a policy sustainability indicator.

There is an intuitive basis for the inclusion of these variables in a readiness indicator. Price stability is important for an economy participating in a FTA due to the fact that high and variable inflation may cause shifts in the real exchange rate and hence affect the competitiveness of the country. Similarly, excessive volatility in the nominal exchange rate will introduce a degree of uncertainty and hence additional cost to international trade. Hafbauer and Schott (1994) indicated that with respect to budget discipline, large public sector deficits are not conducive to economic integration for two main reasons. Firstly, with large budget deficits, central government typically put pressure on the central bank to purchase its debt, causing an expansion in the monetary base, with inevitable inflationary

---

<sup>14</sup> A similar index to Schott (2001) is “Growth Competitiveness Index” produced by the World Economic Forum in 2001 (WEF) This indicator is aimed at identifying the factors explaining a country’s ability to efficiently produce goods and services at international standards of technology and quality. It is created using three sets of variables, including the quality of the macroeconomic environment, the quality of public institutions and technological progress.

consequences. Secondly, continually large and increasing public sector deficits tend to enlarge the current account deficit, which has implications for a country's international creditworthiness. Hafbauer and Schott (1994) also noted that, for countries with high debt ratios, investors would demand a risk premium when investing in debt instruments.

In calculating each country's score, Schott (2001) assigns equal weights to the average of the five macroeconomic indicators, the average of the two market reform indicators and the policy sustainability indicator. The scores range from 0 to 5 for all the variables on the basis of predefined criteria. Listed below are the scoring criteria for each macroeconomic indicator:

1. Price stability indicator: Maximum score is given when a country achieves a rate of inflation, which is less than 5 per cent.
2. Budget discipline: Maximum score is given if a country's nonfinancial public sector surplus/ deficit (as a per cent of GDP) is approximately 2 per cent.
3. Gross National Saving: Maximum score is given if gross national savings is over 30 per cent (as a per cent of GDP).
4. External debt: Maximum score is given if the external debt is less than or equal to 150 per cent of export of goods and services.
5. Currency Stability: Maximum score is given if exchange rate volatility is maintained between 0 and 5 per cent.

The microeconomic indicator assesses the ability of the economy to adjust in the context of a free trade environment. As such, the indicator that shows the central government's reliance on market oriented policies focuses on the level of government intervention in the economy. The more market-oriented policies implemented by the

government such as the privatisation of specific sectors, the higher the score. The lower a country's trade tax revenue to its total revenue, the higher the score in this area. If less than 5 per cent of a country's revenue is from trade tax, it obtains the maximum score of 5.

Finally, the policy sustainability indicator reflects the ability of the government to allocate gains from trade so as to maintain support for economic reforms. Schott (2001) states that it is a combination of an index of political rights and civil liberties. He indicated that this is the most important indicator as it seeks to gauge the durability of domestic economic reforms.

Table 6 shows Jamaica's readiness indicators for 1994 and 2001. The macroeconomic indicators show that Jamaica has made some progress in terms of the adjustments required for freer trade. The average for all the macroeconomic indicators

**TABLE 6: JAMAICA'S READINESS**

Year	Price Stability	Budget Discipline	National Savings	External Debt	Currency Stability	Macro-economic Indicator	Market Oriented Policies	Reliance on Trade Taxes	Market Indicator	Policy Sustainability
<b>2001</b>	4.00	3.00	4.00	4.00	5.00	<b>4.00</b>	3.50	0.00	1.75	3.50
<b>1994</b>	0.00	5.00	3.00	4.00	4.00	<b>3.20</b>	3.00	0.00	1.50	3.38

*SOURCE: Schott, Jeffrey, 'Prospects for Free Trade in the Americas', August 2001. Institute for International Economics, Pages 22- 25.*

increased from 3.2 in 1994 to 4.0 in 2001. The main factor contributing to this improvement was the efforts by the central bank to maintain single digit inflation in the late 1990's. In particular, the price stability index moved from zero in 1994 to 4.0 in 2001. Additionally, there were improvements in the Gross National Savings and Currency Stability indicators. These indicators increased by 1 unit to 4.0 and 5.0, respectively.

However, the budget discipline indicator fell from 5.0 in 1994 to 3.0 in 2001. The financial crisis in 1997 and the associated fallout in economic activity contributed to the

decline in this indicator. The external debt indicator remained constant throughout the period as the country maintained its debt ratio over the period. With regards to the microeconomic indicators, Jamaica, like many other Caribbean countries continue to rely heavily on trade taxes for government revenue and hence the continued poor rating. However, there have been improvements in the market oriented policy indicator and the market indicator. Jamaica has divested most of the state owned assets over the past 6 years. These include the national airline, the electricity and telecommunication companies, manufacturing and tourism interests, as well as financial institutions that had been taken over in the aftermath of the crisis. Finally, there have been improvements in the policy sustainability index as reflected by convergence of views among the major political parties on macroeconomic management.

**TABLE 7: COMPARISON OF 2001 AND 1994 RANKING OF READINESS INDICATOR SCORES.**

Country	2001 Rank	Readiness indicator	1994 Rank	Readiness indicator	Rank difference 1994-2001
Barbados	1	4.38	4	3.80	3
Chile	2	4.30	1	4.13	-1
Uruguay	3	4.71	8	3.57	5
Costa Rica	4	4.15	5	3.65	1
Trinidad and Tobago	5	4.13	3	3.83	-2
Mexico	6	4.11	2	4.00	-4
Argentina	7	3.84	7	3.59	0
Bahamas	8	3.75	9	3.50	1
El Salvador	9	3.69	24	2.62	15
Venezuela	10	3.65	10	3.48	0
Panama	11	3.63	11	3.45	0
Bolivia	12	3.59	20	2.99	8
Grenada	13	3.53	12	3.45	-1
Paraguay	14	3.51	17	3.08	3
Peru	15	3.50	27	2.23	12
Columbia	16	3.42	6	3.62	-10
Belize	17	3.40	18	3.07	1
Honduras	18	3.33	28	2.15	10
St. Lucia	19	3.23	16	3.15	-3
Dominica Republic	20	3.18	25	2.58	5
Dominica	21	3.17	19	3.07	-2
Brazil	22	3.14	14	3.38	-8
St. Kitts and Nevis	23	3.12	13	3.43	-10
Jamaica	24	3.08	23	2.69	-1
St. Vincent and the Grenadines	25	3.08	15	3.17	-10
Guatemala	26	3.08	26	2.42	0
Guyana	27	3.07	29	1.93	2
Antigua and Barbuda	28	2.89	22	2.79	-6
Ecuador	29	2.51	21	2.93	-8
Nicaragua	30	2.37	30	1.75	0
Surinam	31	2.22	31	1.67	0
Haiti	32	1.97	32	1.02	0

SOURCE: Schott, Jeffrey, 'Prospects for Free Trade in the Americas', August 2001. Institute for International Economics, Pages 22- 25.

Although there were positive movements in the individual indicators, a comparative analysis of the readiness indicator for potential FTAA member countries reveals that Jamaica has slipped to a readiness rank of 24 in 2001 from 23 in 1994 (see Table 8).

While there has been some progress in the preparations for the FTAA between 1994 and 2001, further adjustments in the macroeconomic environment are necessary for successful participation in the free trade area. Using a passive scenario from the International Monetary Fund's (IMFs) Article IV/Staff Monitored Programme for Jamaica<sup>15</sup>, a medium term macroeconomic readiness indicator was calculated for Jamaica. While a marginal improvement in the country's readiness status is envisaged by the projected advent of the FTAA, relative to the indicator in FY2001/02, the medium term outlook suggests a marked deterioration in the index (see Table 8). This largely reflects a significant deterioration in the budget discipline indicator between 2001/02 and 2003/04. Savings indicators also point away from the desired direction, while the currency stability indicator shows deterioration in 2002/03. Most significantly the savings rate of the country remains below the acceptable score. In the context of a substantial fiscal effort, the macroeconomic readiness indicator improves to 4.2 by 2005/06, but is still below the desired maximum score.

**TABLE 8: JAMAICA'S READINESS OUTLOOK\***

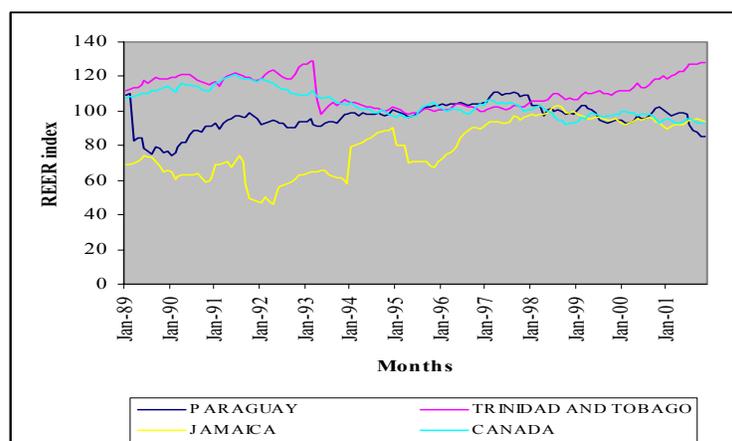
<b>Year</b>	<b>1994/95</b>	<b>2001/02</b>	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>
Price Stability	0.0	4.0	4.0	4.0	4.0	4.0
Budget Discipline	5.0	3.0	1.0	2.0	4.0	5.0
National Savings	3.0	4.0	3.0	3.0	3.0	3.0
External Debt	4.0	4.0	4.0	4.0	4.0	4.0
Currency Stability	4.0	5.0	4.0	5.0	5.0	5.0
<b>Macro-economic Indicator Average</b>	<b>3.2</b>	<b>4.0</b>	<b>3.2</b>	<b>3.6</b>	<b>4.0</b>	<b>4.2</b>

\* Projections based on IMF 2002 Article IV Scenario

<sup>15</sup> IMF (2002) Jamaica: Staff Report for the 2002 Article IV Consultation and a New Staff Monitored Programme, Public Information Notice, P. 33.

A key issue for economic policy is the degree of external competitiveness on entry to the FTAA. Based on changes in the REER (see Figure 3), Jamaica has gained competitiveness over the last three fiscal years to 2001/02, relative to a loss in competitiveness in the preceding years. A similar trend is observed for Paraguay. However, unlike Jamaica and Paraguay, Canada has been gaining competitiveness over the entire sample period. Trinidad, on the other hand has been losing competitiveness since the mid 1990s.

**Figure 3: Real Effective Exchange Rate (January 1989-March 2002)**



## 5.2 MARKET OPPORTUNITIES

The advent of the FTAA should provide new market opportunities for Jamaica. To identify those opportunities, data on trade among selected members of the FTAA<sup>16</sup> from the international centre on trade, arranged by the Standard International Trade Product classification (SITC) was used to identify, from a demand side perspective, those markets that may present significant prospects for the Jamaican business sector (see Tables 9 & 10).

<sup>16</sup> The member countries of NAFTA were chosen because of their relative size. For Latin America, Venezuela, Argentina, Brazil, Columbia & Peru were selected. Trinidad was selected as a representative country for the Caribbean region.

Among some of the fastest growing markets within the region are those for fuel, machinery, transport equipment and manufactured articles. Over the period 1996 to 2000, these categories grew by 20.5 per cent, 11.4 per cent and 11.3 per cent, respectively, and accounted for approximately 75.0 per cent of trade among the specified countries over the period. While these markets are significant within the FTAA, there is little if any opportunity for small resource constrained countries to exploit. Jamaica does not have oil reserves. Similarly, given its current resource endowment, it is unlikely that in the short run Jamaica will be able to efficiently produce machinery and transport equipment including telecom and computer equipment, motor vehicles and ships.

On the other hand, the chemicals category may offer new markets to Jamaican producers. This product category includes pharmaceuticals, cosmetics (including soaps) and plastics, some of which are already produced in Jamaica. Accounting for a significant share of imports of 12.5 per cent among the selected countries, the chemicals category of imports grew at an average rate of 10.9 per cent over the review period. Interestingly, demand from Mexico and Venezuela for these products on the world market grew at average rates of 17.0 per cent and 12.0 per cent over the period, respectively, above the average growth of 10.2 per cent for the remaining countries within the sample<sup>17</sup>.

---

<sup>17</sup> Including Mexico and Venezuela, the demand for Chemicals grew at an average rate of 10.9 per cent over the period.

**Table 9: Growth in Imports for Selected FTAA Countries**

Growth Rate 4 yr. Average (1996-2000)										
	Canada	USA	Mexico	Venezuela	Argentina	Brazil	Trinidad	Columbia	Peru	Weighted Average
<i>Mineral fuel/lubricants</i>	19.07	21.52	38.64	71.76	1.17	7.93	31.20	-7.44	15.08	20.49
<i>Machinery/Transport Equipment</i>	9.57	11.22	23.61	20.03	1.96	4.31	19.65	-6.12	-4.07	11.38
<i>Miscellaneous Manuf Articles</i>	9.69	11.38	20.58	22.60	3.46	-4.07	6.65	-0.76	-1.06	11.34
<i>Chemicals/Products N.E.S</i>	8.64	12.97	17.02	12.01	0.28	4.39	4.47	2.97	4.00	10.94
<i>Manufactured Goods</i>	10.60	10.15	21.79	11.57	2.06	2.25	6.49	0.54	-0.16	10.87
<i>Beverages and Tobacco</i>	11.25	8.58	16.21	20.14	-3.27	-10.95	20.48	-1.15	-1.33	8.33
<i>Food &amp; Live Animals</i>	4.41	6.22	10.18	4.85	-0.32	-8.57	0.09	-4.57	-10.64	4.29
<i>Crude Material. Except food/fuel</i>	4.18	1.34	8.82	-1.91	-1.86	-4.83	-3.29	2.48	5.29	1.90
<i>Animal/Vegetable Oil/Fat/Wax</i>	2.14	-2.50	-2.43	6.06	12.00	-10.16	5.37	-1.74	9.41	-2.60

Source: Calculations based on data from the International trade centre, www.intracen.org

**Table 10: Selected SITC Groups Share of Total Imports**

Share of Imports 5 yr. Average (1996-2000)										
	Canada	USA	Mexico	Venezuela	Argentina	Brazil	Trinidad	Columbia	Peru	Average
<i>Machinery/Transport Equipment</i>	52.1	45.3	48.5	43.7	47.5	41.8	36.5	36.6	36.3	43.2
<i>Manufactured Goods</i>	13.0	11.7	17.1	15.7	14.8	10.3	15.2	16.4	14.7	14.3
<i>Chemicals/Products N.E.S</i>	8.4	5.9	9.1	13.0	17.2	16.8	8.7	19.8	13.8	12.5
<i>Miscellaneous Manufactured Articles</i>	11.4	17.2	11.9	9.8	9.5	6.7	5.5	8.3	7.8	9.8
<i>Mineral fuel/lubricants</i>	4.1	8.9	2.4	2.7	3.0	12.1	19.9	2.5	10.7	7.4
<i>Food &amp; Live Animals</i>	4.7	3.6	4.2	9.7	4.1	7.5	8.9	9.7	12.7	7.2
<i>Crude Material. except food/fuel</i>	2.9	2.3	3.3	3.1	3.1	3.7	3.6	3.5	2.2	3.1
<i>Commodities NES</i>	2.8	4.0	3.0	0.0	0.3	0.1	0.4	1.6	0.0	1.3
<i>Animal/Vegetable Oil/Fat/Wax</i>	0.1	0.2	0.4	1.2	0.2	0.6	0.6	1.0	1.3	0.6
<i>Beverages and Tobacco</i>	0.5	0.8	0.2	1.1	0.4	0.4	0.7	0.7	0.5	0.6

Source: Calculations based on data from the International trade centre, www.intracen.org

Jamaica has not significantly penetrated the markets for chemicals in Latin America. Over the period 1996 - 2001, the country sold an average of 1.2 per cent of its total exports to Latin America as a whole. Market penetration has traditionally been limited because of language barriers, tradition and history. Moreover, in this particular industry, there will be need for partnerships or joint venture-ships with mainstream manufacturers and distributors, given the existence of brand loyalty among consumers.

The other categories with significant potential are the beverages and tobacco and manufactured goods groups, which have had average growth rates in imports of 8.3 per cent

and 10.9 per cent over the review period. For the former category, Mexico and Venezuela are also potential export markets for Jamaica. Within this broad category, alcoholic beverages account for over 70 per cent of the value of imports among the countries<sup>18</sup>.

Within the manufactured goods category, the items that account for a significant share of imports include leather, rubber of all types, and fabric among others. In addition, this category includes aluminium and garments, the latter representing 10.5 per cent of total imports of manufactured goods into the USA. Jamaica still has the potential to maintain and expand its market share in this market under the FTAA, given that the general infrastructure exists. However, factors, which have hampered the general competitiveness of the industry, will have to be addressed.

The food and live animals import subcategory does not exhibit export potential for Jamaica. Similarly, the market for animal/vegetable oil/fat/wax has not shown the potential for significant growth or future expansion. This category not only has the smallest growth rate among the categories but it also has the smallest share of imports by the potential FTAA members. One reason could be that countries are already self sufficient in this category.

---

<sup>18</sup> Jamaica has recently given significant tax concessions to a major manufacturer of alcoholic beverages and retooling is currently taking place within the industry. This initiative may have been timely given the advent of the FTAA.

### 5.3 IMPLICATIONS FOR SELECTED JAMAICAN SECTORS

This section analyses the potential impact of the FTAA on the mining, agriculture and manufacturing sectors<sup>19</sup>. Table 11 below shows the top 20 commodities exported by Jamaica and the share of total merchandise export value over the period 1996 to 2000. Aluminium ores and concentrates and sugar together accounted for more than 62 per cent of total merchandise exports, indicating that Jamaica has a relatively undiversified export base.

**Table 11: Top 20 Exported Commodities of Jamaica**

<i>HS3: Product group</i>	<i>Average 000US\$</i>	<i>% of Total</i>	<i>Cumulative Sum of % total</i>	<i>Rank</i>
285 - ALUMINIUM ORES/CONCS/ETC	702574.4	54.46	54.46	1
061 - SUGAR/MOLLASSES/HONEY	95336.6	7.39	61.85	2
846 - CLOTHING ACCESSORIES	85455.4	6.62	68.48	3
845 - ARTICLES OF APPAREL NES	79861.8	6.19	74.67	4
057 - FRUIT/NUTS, FRESH/DRIED	47388.2	3.67	78.34	5
112 - ALCOHOLIC BEVERAGES	40166	3.11	81.46	6
071 - COFFEE/COFFEE SUBSTITUTE	28451	2.21	83.66	7
512 - ALCOHOLS/PHENOLS/DERIVS	17941.4	1.39	85.05	8
054 - VEGETABLES,FRSH/CHLD/FRZ	17686.2	1.37	86.42	9
098 - EDIBLE PRODUCTS N.E.S.	17207	1.33	87.76	10
122 - TOBACCO, MANUFACTURED	15474	1.20	88.96	11
844 - WOMEN/GIRL WEAR KNIT/CRO	14402	1.12	90.07	12
036 - CRUSTACEANS MOLLUSCS ETC	10624	0.82	90.90	13
841 - MENS/BOYS WEAR, WOVEN	10414.4	0.81	91.70	14
522 - ELEMENTS/OXIDES/HAL SALT	9082.2	0.70	92.41	15
048 - CEREAL ETC FLOUR/STARCH	5484.4	0.43	92.83	16
075 - SPICES	5468	0.42	93.26	17
058 - FRUIT PRESVD/FRUIT PREPS	5349.6	0.41	93.67	18
842 - WOMEN/GIRL CLOTHING WVEN	5016.4	0.39	94.06	19
516 - OTHER ORGANIC COMPOUNDS	4422.4	0.34	94.40	20

The domestic mining sector has little competition among the countries within the FTAA, so there should not be any immediate threat to this sector following the formation of the trading bloc. Table 12 shows that, among the competing countries in the FTAA, Jamaica has the largest world market share for alumina, accounting for close to 8.9 per cent

<sup>19</sup> These sectors are among the major employees of labour.

of world trade, while Suriname and Venezuela account for 5.0 per cent and 1.5 per cent, respectively. The USA is the major recipient of Jamaica’s alumina, while Suriname exports to Norway and Venezuela exports to Russia.

With respect to bauxite, the main exporters from the region are currently Guyana and Jamaica with shares of the world market of 7.9 and 4.3 per cent, respectively. Table 12 further shows that the USA is the major market for both countries, suggesting that there should be no market diversion to one or the other on the advent of the FTAA. Importantly however, Jamaica is currently the fourth largest producer of bauxite in the world, following Australia, Brazil and Guinea. Brazil will become a member of the FTAA, which may imply greater competition for bauxite exports in the USA. However, in the context of increased demand within the free trade area, Brazil may increase the use of aluminium oxides in the domestic cars manufacturing industry.

**Table 12:** Bauxite and Alumina

Bauxite						
Country	Rank	Exports(US\$M)	Share in World	Leading Market		
				1st	2nd	
Guyana	3.0	81.0	7.9	USA	Canada	
Jamaica	4.0	46.0	4.3	USA		
Alumina (HS)						
Country	Rank	Exports	Share in World	Leading Market		
				1st	2nd	
Jamaica	1.0	704.0	8.9	USA	Netherland	
Surinam	1.0	319.0	4.6	Norway	USA	
Venezuel	13.0	102.0	1.5	Russia	USA	

Source: Compiled by Author from the International Trade Centre Website (UNCTAD/WTO)

## **Manufacturing**

### *Textiles*

The Jamaican textile industry has declined throughout the entire second half of the 1990's mainly as a result of producers relocating to Mexico to take advantage of lower production cost. Since the formation of NAFTA, Jamaica's garment exports have fallen to 2.2 per cent<sup>20</sup> of all US garments imports. However, garment exports remain an important export commodity for the country. Eleven potential FTAA member countries have this commodity among their top thirty-exports. It is ranked first in Haiti and seventh in the Dominican Republic and Peru. With regard to the categories Garment 2 and Garments 3<sup>21</sup>, there will be competition from seven potential FTAA members (see Table 13). In this context, while substantial competition exists, especially as it relates to lower labour costs, with equal treatment in the major markets under the FTAA, there is the potential for a rebound in the industry. However, as noted earlier, significant adjustments may be required at both the macroeconomic and microeconomic level to facilitate a turn-around in the sector.

---

<sup>20</sup> See Nogueira, 1997, "The Integration Movement in the Caribbean at Crossroads: Towards a New Approach of Integration."

<sup>21</sup> Which refer to female underwear, tights, stockings & other hosiery, knitted or crocheted.

**Table 13: Garments (2000)**

Garments 1(HS 6108)					
Country	Rank	Export(US\$M)	Share in World (%)	Leading Market	
				<i>1st</i>	<i>2nd</i>
Mexico	27.0	1098.0	8.3	USA	Cayman
Honduras	40.0	3.0	4.8	USA	not elsewhere specified
El Salvador	23.0	12.0	2.9	USA	Honduras
Dominican Republic	7.0	203.0	1.5	USA	Canada
Haiti	1.0	121.0	0.9	USA	Canada
Jamaica	7.0	31.0	0.6	USA	St. Kitts & Nevis
Peru	7.0	213.0	0.6	USA	Chile
Bolivia	36.0	5.0	0.0	USA	Panama
Dominica	30.0	0.0	0.0	Barbados	St. Vincent & the Grenadines
Grenada	15.0	0.0	0.0	Barbados	St. Vincent & the Grenadines
St. Lucia	22.0	0.0	0.0	USA	Barbados
Garments 2 (HS 6109)					
Country	Rank	Export (US\$M)	Share in World (%)	Leading Market (%)	
				<i>1st</i>	<i>2nd</i>
EL Salvador	35.0	8.0	2.2	Honduras	Nicaragua
Jamaica	2.0	86.0	2.0	USA	Barbados
Costa Rica	36.0	26.0	1.4	USA	Great Britain
Dominican Republic	19.0	53.0	1.2	USA	Japan
Garments 3 (HS 6115)					
Country	Rank	Export (US\$M)	Share in World (%)	Leading Market (%)	
				<i>1st</i>	<i>2nd</i>
Costa Rica	8.0	107.0	2.9	USA	Mexico
El Salvador	24.0	12.0	2.5	USA	Honduras
Honduras	20.0	7.0	2.2	USA	Slovenia
Dominican Republic	12.0	128.0	2.1	USA	Canada
Jamaica	10.0	15.0	0.7	USA	
Columbia	24.0	54.0	0.7	Venezuela	Costa Rica
Haiti	3.0	22.0	0.4	USA	Canada
St. Lucia	35.0	0.0	0.0	Barbados	Antigua & Barbuda

Source: Compiled by author from the International Trade Centre Website (UNCTAD/WTO)

### *Beverages*

Jamaican alcoholic beverages, particularly rum, have been doing well in international markets due to the maintenance of quality over the years. This market could be considered a niche market given the uniqueness of alcoholic beverages across various countries. Nonetheless, there are nine other producers of alcoholic beverages within the FTAA (See Table 14). The FTAA would mean the removal of restrictions on Jamaica's rum exports to the USA and Canada, which imply significant market opportunities for the

industry. Moreover, as noted earlier, the industry could enjoy significant support from Latin American consumers.

**Table 14: Alcohol (2000)**

Alcohol 1 (HS 2207)					
Country	Rank	Export (US\$M)	Share in World (%)	Leading Market	
				1st	2nd
Nicaragua	24.0	3.0	0.6	Netherlands	Philippines
Jamaica	5.0	38.0	3.5	USA	Great Britain
Guyana	25.0	2.0	0.2	Netherlands	Finland
Panama	36.0	3.0	0.2	Columbia	Spain
Alcohol 2 (HS 2208)					
Country	Rank	Export (US\$M)	Share in World (%)	Leading Market (%)	
				1st	2nd
Bahamas	1.0	219.0	2.2	Germany	Great Britain
Jamaica	8.0	29.0	0.5	Mexico	Great Britain
Guyana	11.0	6.0	0.1	Netherlands	Canada
Panama	28.0	5.0	0.1	Free Zones	Costa Rica
Trinidad & Tobago	12.0	25.0	0.1	Bahamas	USA
Haiti	39.0	1.0	0.0	USA	Italy
Nicaragua	36.0	1.0	0.0	Mexico	Costa Rica
St. Lucia	32.0	0.0	0.0	Grenada	Germany
St. Vincent & The Grenadines	32.0	0.0	0.0	USA	Canada
Suriname	23.0	0.0	0.0	Netherlands	Guyana

Source: Compiled by author from the International Trade Centre Website (UNCTAD/WTO)

Notes: Alcohol 1 refers to ethyl alcohol and spirits denatured above 80 per cent alcohol volume level (liqueurs, cognac, brandies, whiskey, rum, gin, vodka and wine coolers) and Alcohol 2 refers to the same product denatured below 80 per cent.

## Agriculture

The sugar industry is Jamaica's second largest export earner. It directly employs more than 40,000 workers or 5 per cent of the employed labour force<sup>22</sup>. Jamaica supplies 1.1 per cent of the demand from the world market, compared to Brazil's share of 13.5 per cent. Most of the countries within the FTAA share the US market for sugar (see Table 15) through the tariff rate quota allocation system<sup>23</sup>. This quota system is likely to be phased out

<sup>22</sup> Based on the employed labour force as at end 2000.

<sup>23</sup> The USA quota for Jamaica sugar is little over 11,000 metric tons annually, but the price is above that of the world market.

under the FTAA<sup>24</sup>, with lowest cost producers standing to benefit from this adjustment to the trading arrangements.

**Table 15: Sugar (HS1701) (2000)**

Country	Cost (US cents) per Pound	Exports (US\$M)	Share in World (%)	Leading Market	
				1st	2nd
Bahamas	n.a.	3.0	0.0	Puerto Rico	Gambia
Barbados	39.2	27.0	0.4	Great Britain	
Belize	21.1	37.0	0.5	Great Britain	USA
Bolivia	13.2	7.0	0.1	Puerto Rico	USA
Brazil	15.0	1199.0	13.5	Russia	Nigeria
Columbia	9.7	194.0	2.7	Russia	Venezuela
Costa Rica	18.2	29.0	0.5	USA	Morocco
Dominican Republic	21.3	82.0	1.2	USA	Netherlands Antilles
Ecuador	14.2	8.0	0.1	Puerto Rico	USA
El Salvador	14.7	40.0	0.9	Russia	USA
Guatemala	9.3	191.0	2.3	Canada	Korea
Guyana	14.9	135.0	2.0	Great Britain	Puerto Rico
Honduras	16.9	7.0	0.1	USA	Trinidad & Tobago
Jamaica	19.2	83.0	1.1	Great Britain	Portugal
Nicaragua	15.1	36.0	0.4	USA	Romania
Panama	23.8	20.0	0.3	USA	Haiti
Paraguay	21.9	8.0	0.2	USA	Netherlands
Peru	17.2	16.0	0.1	USA	Columbia
S. Kitts and Nevis	n.a.	6.0	0.1	Great Britain	Anguilla
Trinidad & Trinidad	23.6	36.0	0.5	Great Britain	Puerto Rico

Source: Compiled by Author from the International Trade Centre Website (UNCTAD/WTO)

The domestic sugar industry has not been efficient when compared with the group of selected producers. In 1994, the average cost of producing a pound of sugar locally was US\$0.19 cents, slightly above the average of US\$0.18 cents for selected producers among the FTAA states. By 2001, indications are that the average cost of producing a pound of sugar rose to US\$0.30 per pound, while the price received on the export market was US\$0.22. Additionally, over the last two years, the output of the domestic industry has been

<sup>24</sup> Caribbean sugar exports to Europe would not be immediately threatened as long as the EU-ACP Sugar

declining due to poor weather conditions and lack of sufficient investment to improve production.

With respect to bananas, exports in recent years have become exposed to increased competition, particularly from Central America. Nonetheless, the Banana Export Company (BECO) has been granted an allocation of up to 76,000 tonnes from the European Union (EU) until the year 2006, at which time a tariff regime will be established. ACP countries now have to compete with other low cost countries within the FTAA that export bananas (see Table 16). Most of these countries are from South and Central America. A more efficient approach to the production and marketing of bananas will be required to ensure that the Jamaica banana industry remains competitive on the international market. The strategies for ensuring sustainability must focus on organizational restructuring, financial reform, markets and marketing reform, as well as increasing banana production and productivity and improving the quality of the fruits. The process for improving Jamaica's competitiveness in this sector has already begun when almost \$1.0 billion was committed in 2000 under the EU Banana Support Programme over a five-year period.

It is difficult to conclude as to whether or not there will be trade diversion or trade creation for Jamaica due to participation within the FTAA. However, there are specific industries, such as sugar, that are more susceptible to competition. It is therefore necessary that within the next two years adjustments be done to these industries to ensure competitiveness. These include seeking efficient and new ways of production and the creation of an environment for investment. Of note, the adjustment process to take the relevant industries to a state competitiveness will take more than two years but the country needs to do as much as possible prior to the establishment of the FTAA.

---

Protocol exists. However, the EU has been under pressure to aggressively cheapen the price of both "protocol" and "special protocol" sugar from the ACP countries.

**Table 16: Banana (HS 0803) (2000)**

Country	Rank	Export (US\$M)	Share in World (%)	Leading Market	
				1st	2nd
Ecuador	2.0	821.0	25.3	USA	Russia
Costa Rica	2.0	553.0	16.1	USA	Belize
Columbia	6.0	481.0	13.6	USA	Belize
Panama	1.0	149.0	5.3	Sweden	Belgium
Guatemala	3.0	178.0	4.8	USA	Belize
Honduras	3.0	69.0	3.1	USA	Great Britain
Dominican Republic	21.0	51.0	0.9	Great Britain	Germany
Belize	4.0	38.0	0.6	Great Britain	Ireland
Jamaica	9.0	23.0	0.5	Great Britain	USA
St. Vincent & The Grenadines	1.0	19.0	0.5	Great Britain	Trinidad & Tobago
Suriname	6.0	9.0	0.5	Great Britain	Hong King
Nicaragua	11.0	10.0	0.4	Germany	USA
Dominica	1.0	14.0	0.3	Great Britain	Antigua & Barbuda
Bahamas	35.0	1.0	0.0	HRV	Slovenia
Grenada	13.0	1.0	0.0	Great Britain	

Source: Compiled by Author from the International Trade Centre Website (UNCTAD/WTO)

## 6.0 IMPLICATIONS FOR IMPORT TARIFF REVENUES

In this section we assess the extent of fiscal adjustments that will be directly associated with tariff adjustments under the FTAA. Trade tax provides an important source of revenues to Jamaica. For fiscal year 2001/02, revenues from international trade accounted for approximately 26 per cent of total revenues and 7 per cent of GDP. However, the proposed FTAA will require potential member countries to have a uniform tariff regime, which may result in the reduction of tariff levels for some countries. Currently there are significant differences in tariff levels across potential members of the FTAA (see Table 17). Average tariff rates in Jamaica and Trinidad and Tobago are relatively lower than in some Latin American countries such as Brazil. However, there are countries within the hemisphere, such as Uruguay, the USA and Canada that have lower rates, which will make

it difficult for Caribbean countries to maintain existing tariff rates and by extension an important source of revenue.

Negotiating to maintain the existing tariff levels for CARICOM member countries will be difficult. Within CARICOM most countries apply a Common External Tariff (CET). However, if there is any threat of injury to a particular industry the affected country can negotiate to increase the rate to protect the industry. However, if the CET is set as the bound rate<sup>25</sup> within the FTAA, CARICOM countries will not be able to increase tariffs levels above the CET. On the other hand, if the FTAA Ministers decide that the Most Favoured Nation<sup>26</sup> applied rates will be the base rate for tariff reductions, CARICOM countries will face an immediate and significant reduction in revenues. As such, CARICOM may opt to negotiate for extended time to phase in the agreed reductions, given the short-term government revenue implications. If this is not forth coming, the government may have to contemplate compensating changes in the tax structure, probably involving increases in the General Consumption Tax (GCT) or the Pay As You Earn (PAYE) tax. Assuming trade taxes are eliminated and the Jamaican Government decides to recover the losses through tax increases; half through GCT and the other half through PAYE. This could lead to increases of 10.0 and 5.0 percentage points in these tax rates, respectively, to maintain revenue flows.

---

<sup>25</sup>Bound tariff rates are rates committed to by countries, they represent commitments not to increase tariffs above the listed rates — the rates are “bound”. For developed countries, the bound rates are generally the rates actually charged. Most developing countries have bound the rates somewhat higher than the actual rates charged, so the bound rates serve as ceilings.

<sup>26</sup> Basically, it is a rate that is non-discriminating with respect to imports from different sources.

**Table 17: Average Tariffs Rates for Agriculture and Industrial Goods in FTAA Countries**

Country / GROUP	Year	All Goods (per cent)	Agriculture (per cent)	Industrial (per cent)
<b>MERCOSUR</b>				
Argentina	1999	11.0	10.4	11.0
Brazil	1999	13.6	10.8	13.9
Paraguay	1999	9.0	10.2	9.0
Uruguay	1999	4.6	4.2	4.7
<b>ANDEAN COMMUNITY</b>				
Bolivia	1999	9.7	10.0	8.9
Colombia	1999	11.6	13.1	11.6
Ecuador	1999	11.6	15.5	11.0
Peru	1998	13.2	14.7	13.0
Venezuela	1999	12.0	12.5	11.9
<b>CARICOM</b>				
Antigua and Barbuda	1998	9.0	na	na
Bahamas	1996	32.0	na	na
Barbados	1999	13.6	20.2	12.0
Belize	1998	9.2	21.0	8.2
Dominica	1998	9.0	na	na
Grenada	1998	9.3	na	na
Guyana	1998	10.4	23.1	9.3
<i>Jamaica</i>	<i>1999</i>	<i>8.7</i>	<i>21.6</i>	<i>7</i>
St. Kitts and Nevis	1998	9.2	na	na
St. Lucia	1998	9.7	na	na
St. Vincent and the Grenadines	1998	9.2	na	na
Suriname	1998	9.5	na	na
Trinidad and Tobago	1998	9.2	20	8
<b>CACM</b>				
Costa Rica				
El Salvador	1999	7.2	16.8	5
Guatemala	1999	7.6	10.7	7
Honduras	1999	8.1	12.2	8
Nicaragua	1999	11	16.4	10
<b>NAFTA</b>				
United States	1998	4.8	8.7	4.3
Canada	1999	4.6	4.6	4.5
Mexico	1999	10.1	11.5	10.0
<b>OTHER</b>				
Chile	1999	10.0	10.0	10.0
Cuba	1997	10.7	na	na
Dominican Republic	1997	14.5	15.3	14.2
Haiti	1995	10.0	na	na
Panama	1998	9.2	11.4	9

*Source:* USA General Accounting Office (2001), based on World Bank data. Information for nine FTAA countries on agriculture and industrial products was not available.

*Note:* Averages are the simple average ad valorem tariff rate across all goods or agricultural and industrial goods.

## **7.0 CONCLUDING REMARKS AND POLICY RECOMMENDATIONS**

The formation of the FTAA by 2005 poses significant challenges for Jamaican policy makers, producers and workers. It will, however, offer new opportunities for the society. The elimination of trade barriers will require adjustments in macroeconomic policy, production practices and labour markets so as to capitalize on the opportunities and benefits offered by free trade.

The disadvantage of smaller states in the negotiating processes is well known. Nevertheless, the experience of the WTO negotiation indicates that the main weakness stems from the level of preparation. Some of the critical issues that Jamaica will have to negotiate effectively are the transitional period, labour and capital mobility and special treatment for vulnerable and strategic sectors.

Jamaica has begun the process of restructuring its trade policy in light of the various proposed trade agreements. This process began on 24 September 2001, when Cabinet agreed to adjust the existing trade policy. The new policy has three key objectives:

1. To create new, diversified exports by facilitating the growth of domestic capital as the basis for diversifying exports and facilitating market preparation.
2. To steadily reduce the share of imports relative to output.
3. To increase the flows of net positive returns from overseas assets that have been generating significant remittances and other capital flows for Jamaica.

While certain sectors, namely agriculture will face greater competition, the FTAA will present more opportunities for exports, in terms of volume and diversity. The main challenge relates to enhancing the competitiveness of the Jamaican economy. To this end, attaining the current macroeconomic policy objectives of a stable economy with inflation rates comparable to those of our trading partners within the shortest possible time assumes critical importance. The analysis points to the need for adjustment in fiscal and debt

management so as to ensure the sustainability of the current policy thrust. Increased emphasis also has to be placed on the non-macroeconomic components of competitiveness, such as security, attracting direct investments and enhancing human capital development.

## APPENDIX

### TABLE I

REGIONAL TRADE AGREEMENTS IN THE AMERICAS IN THE 1990'S		
Agreement	Date of Signature	Entry into Force
Caribbean Community (Caricom) <sup>1</sup>	1989	1990
Chile-Mexico <sup>2</sup>	1991	1992
Central American Common Market (CACM) <sup>3</sup>	1990	1993
CARICOM-Venezuela	1992	1993
Chile- Venezuela	1993	1993
North America Free Trade Agreement (NAFTA)	1992	1994
Bolivia-Chile <sup>4</sup>	1993	1993
Colombia-Chile	1993	1994
Southern Cone Common Market (MERCOSUR)	1991	1995
Costa Rica-Mexico	1994	1995
Group of Three (G-3)	1994	1995
CARICOM- Colombia	1994	1995
Bolivia-Mexico	1994	1995
Chile-Ecuador	1994	1995
Andean Community <sup>5</sup>	1988	1996
Chile-MERCOSUR	1996	1996
Canada-Chile	1996	1997
Bolivia-MERCOSUR	1996	1997
Mexico-Nicaragua	1997	1998
CACM-Dominican Republic <sup>6</sup>	1998	1999
CARICOM-Dominican Republic <sup>7</sup>	1998	1999

**Notes:**

1. CARICOM began its reform process in 1989 (Declaration of Grand Anse) and agreed to launch a harmonized CET in 1990.
2. The two countries substantially revised and upgraded this accord in an agreement that was signed and entered into force in 1998.
3. The Presidents agreed to re-activate the CACM in 1990 (Montelimar Summit) and opted to definitively pursue a customs union in 1993 (Protocol of Guatemala).
4. Negotiations are currently underway to revise and upgrade the agreement.
5. In 1988, the Presidents agreed (in the Protocol of Quito) to amend the founding Charter of the Andean Group and alter the existing tariff reduction program. In 1996, the leaders officially agreed to change the Group's name to the Andean Community and reform certain existing institutional structures ( Declaration of Trujillo).
6. The Agreement has yet to receive legislative approval in all countries and is only in effect in those countries that have ratified it.
7. The Agreement is expected to enter into force this year.

*Source:* Devlin et al, 1999, The FTAA: Some Longer Terms Issues, *Institute for the Integration of Latin America and the Caribbean Series.*

## Additional notes to TABLE 1

### **MERCOSUR**

The Southern Cone Common Market / Mercado Común del Cono Sur:

Argentina, Brazil, Paraguay, Uruguay - Abbreviation=MERCOSUR

### **ANDEAN COMMUNITY**

The Andean Community / Comunidad Andina de Naciones:

Bolivia, Colombia, Ecuador, Perú, Venezuela - Abbreviation=ANDEAN COMMUNITY/COM. ANDINA

### **CACM**

The Central American Common Market / Mercado Común de Centroamerica (MCCA):

Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua - Abbreviation=CACM

### **CARICOM**

The Caribbean Common Market:

Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica,

St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago

- Abbreviation=CARICOM

### **NAFTA**

The North American Free Trade Agreement / Tratado de Libre Comercio (TLC):

Canada, Mexico, USA - Abbreviation=NAFTA

**TABLE II****EXCHANGE RATE ARRANGEMENTS IN THE AMERICAS**

<b>Country</b>	<b>Exchange Rate Arrangement</b>
Antigua and Barbuda	ECCU- pegged to the US dollar
Argentina	Managed float
Bahamas, The	Fixed against US dollar
Barbados	Fixed against US dollar
Belize	Fixed peg
Bolivia	Managed float
Brazil	Independently floating with inflation targeting
Canada	Independently floating with inflation targeting
Chile	Independently floating with inflation targeting
Colombia	Independently floating with inflation targeting
Costa Rica	Crawling peg
Dominican Republic	Managed float
Dominica	ECCU- pegged to the US dollar
Ecuador	Dollarized
El Salvador	Dollarized
Grenada	ECCU- pegged to the US dollar
Guatemala	Managed float
Guyana	Independently floating with monetary aggregate target
Haiti	Independently floating
Honduras	Exchange rate regime within crawling band
Jamaica	Managed floating with monetary aggregate target
Mexico	Independently floating, monetary aggregate target
Nicaragua	Crawling peg
Panama	Dollarized
Paraguay	Managed floating
Peru	Independently floating with monetary aggregate target
St.Kitts and Nevis	ECCU- pegged to the US dollar
St. Lucia	ECCU- pegged to the US dollar
St.Vincent and the Grenadines	ECCU- pegged to the US dollar
Suriname	Pegged exchange rate with horizontal band
Trinidad and Tobago	De facto fixed pegged
Uruguay	Managed float
USA	Independently Floating
Venezuela	Managed float

*Notes:* ECCU (Eastern Caribbean Currency Union)

*Source:* Suarez-Rojas (2002), page 19.

## REFERENCES

- Andic Fuat, Andic Suphan and Dosser Douglas (1971), “ A Theory of Economic Integration for Developing Countries.” George Allen & Unwin Ltd.
- Chaitoo, Ramesh (2002), “FTAA Tariff Negotiations Modalities: Implications for CARICOM.” Caribbean Regional Negotiating Machinery.
- Córdova, J. Ernesto López (2001), “NAFTA and the Mexican Economy: Analytical Issues and Lessons for the FTAA.” *Intal*, ITD-STA.
- Dookeran, Winston (1994), “ Caribbean Integration: An Agenda for Open Regionalism.” *The Round Table, The Commonwealth Journal of International Affairs*, 330:205-211.
- ECLAC/CDCC (LC/CAR/G.664) (2001), “Trade and Investment Flows Between the Caribbean and the Rest of the Hemisphere in the Context of the FTAA.” 12 November.
- ECLAC Statistical Yearbook (2001)
- Greenwald, Douglas et al (1973), “ The McGraw Hill Dictionary of Modern Economics.” 2nd Edition, McGraw Hill Book Company.
- Heckscher, E. F (1919), “The Effect of Foreign Trade on the Distribution of Income.” *Ekonomisk Tidskrift*, 21: 1-32.
- Hufbauer, Gary and Jeffrey Schott (1994). “Western Hemisphere Economic Integration” *Institute of International Economics*, Washington, DC.
- IMF (2002) Article IV Consultation and a New Staff Monitored Programme – Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Jamaica.
- Jessen, Anneke and Rodriguez (1999), “The Caribbean Community: Facing the Challenges of Regional and Global Integration. *Intal*, ITD-STD.
- Krueger, Anne O (1999), “Trade Creation and Trade Diversion under NAFTA.” National Bureau of Economic Research, working paper 7429.
- Loría, Eduardo (2000), Efectos de la apertura comercial en la manufactura mexicana 1980-1998, XIII Congreso Nacional de Economistas, México, D. F., 8-10 de febrero de 2000.
- Nogueira (1997), “The Integration Movement in the Caribbean at Crossroads: Towards a New Approach of Integration.” April.

- Ohlin, B. (1933) "Interregional and International Trade", Cambridge, MA. : Harvard University Press.
- Ricardo, David (1817), "Principles of Political Economy and Taxation." Reprinted as vol. 1 of Straffa, P. ed. (1951)
- Rodrik, Dani (2000), "How Far will international Economics Integration Go?" *Journal of Economic Perspectives*, 14:177-186, No.1.
- Suarez-Rojas, Lilliana (2002), " Toward A Sustainable FTAA: Does Latin America Meet The Necessary Financial Preconditions?" *Institute of International Economics*.
- Samuelson, Paul (1939), " The Gains from International Trade." *Canadian Journal of Economics and Political Science*, 5:1995-205.
- \_\_\_\_\_ (1962), "The Gains from International Trade Once Again." *Economic Journal*, December, 72:820-829.
- Schott, Jeffery (1989), "More Free Trade Areas" *Institute of International Economics: Policy Analyses in International Economics*, 27
- Schott, Jeffery (2001), " Prospects For Free Trade in the Americas." Institute for International Economics, Washington, D.C
- Schiff, Maurice (1996), " Small is beautiful: Preferential Trade Agreements and the Impact of Country Size, Market Share, Efficiency and Trade Policy." The World Trade, The International Economics Department, International Trade Division, October.
- Sepúlveda Carlos and Aguirre Arturo Vera (1997), "Mercosur: Achievements and Challenges." Inter-American Development Bank, working paper series 222.
- Tweeten, Luther (1992), " Agricultural Trade: Principles and Policies." Westview Press, Inc., United States of America.
- Venir, Jacob (1950), " The Customs Union Issue." New York: Carnegie Endowment for International Peace.