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# **The Organization of Eastern Caribbean States (OECS) within the Free Trade Area of the Americas Agreement (FTAA)**

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## **Issues, Effects and Implications**

**Prepared for the OECS Secretariat by  
UNECLAC, Sub regional Headquarters for the Caribbean**

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## **Introduction**

The Secretariat of the Organisation of Eastern Caribbean States (OECS) requested the Economic Commission for Latin America and the Caribbean (ECLAC) Sub-regional Headquarters for the Caribbean to prepare this document. It analyses some of the main issues, effects and implications of the Free Trade Area of the Americas (FTAA) for OECS member states.

The FTAA is an agreement in the process of being negotiated. The FTAA legal texts and provisions are in draft form and for the most part are still full of question marks and lack of agreement concerning fundamental issues. As a result any exercise that attempts to extract the effects and implications of this agreement is bound to be ridden with some degree of uncertainty.

The analysis should not proceed by examining draft texts that are incomplete or whose final form is at the stage still unknown. It must instead address the issue of the effects and implications of the FTAA by focussing on those variables, and aspects which can be derived or ascertain from the existing empirical evidence. These include the initial conditions under which countries join a free trade agreement, the relationship between internal and external performance, the significance and composition of trade flows with other countries or sub-regional groupings that will also form part of the FTAA, the market access conditions of the main FTAA trade partners and the relationship between trade liberalisation, import growth and domestic policy.

The document comprises eleven sections. Following the introduction, the second section discusses the heterogeneity of FTAA participant countries and the implicit and explicit objectives of the FTAA. The third section highlights the underlying principles of the FTAA derived from the main existing documents on the agreement.

Considering that the initial conditions can shape and determine the outcome of any trade agreement and that under very specific assumptions applicable to the OECS, there exists a definite relationship between internal and external economic performance, the fourth and fifth sections analyse descriptively and then analytically the current macroeconomic and trade conditions of the OECS.

The sixth section examines the main trends in the OECS trade flows in goods and services to FTAA member countries as well as the OECS export structure. Section seven focuses on the OECS market access conditions for its two main FTAA trade partners, the United States and CARICOM.

Section eight deals with the tariff question. This consists in identifying the potential effect of tariff reductions on costs and import growth. Section nine ascertains the extent to which the OECS's fiscal accounts are dependent on tariffs. Section ten explores the relationship between the FTAA and domestic policy. The final reflections and a summary of the empirical evidence of the possible impact and effects of the FTAA on the OECS are found in the conclusion.

## **1. The Free Trade Area of the Americas Agreement: participants and prospects**

The Free Trade Area of the Americas (FTAA, hereafter) negotiations which are expected to be completed in the year 2005 involve 34 countries with important differences in size, population, economic structure, economic performance and, stability and welfare.<sup>1</sup> Member countries also belong to different regional groupings with heterogeneous degrees of integration and external orientation. Countries exhibit no other common denominator than that to belong to the Americas in the broadest sense of the term and to be to some varying extent to be economically dependent on the United States market.

Some inter-country comparisons can illustrate the disparities involved. The United States GDP is more than 8 000 times that of all FTAA countries with the exception of Brazil. In a similar manner the population size of the United States, Brazil, and Mexico are above or close to a hundred million inhabitants, while that of eleven countries (Caribbean Islands) are below one million inhabitants. GDP growth rates are also dissimilar in terms of levels and their volatility (See Table 34 in the annex).

As would be expected a similar situation is reflected in the FTAA members' GDP per capita levels. The FTAA grouping comprise at one extreme high income level countries such as the United States, the Bahamas, Antigua and Barbuda, Canada with GDP per capita above 12 000 US dollars.

At the other extreme it includes countries such as Honduras, Guyana, Haiti and Nicaragua whose GDP's per capita are of the order of 500 or 600 US\$. Three of the latter four countries (Guyana, Haiti, and Nicaragua) are considered Highly Indebted Poor Counties (HIPC). In between, at the lower end of the GDP per capita scale are the Organisation of Eastern Caribbean Member States and other Central American countries with a GDP per capita within the range of 2000-3000 USD. Overall the mean GDP per capita for the FTAA grouping is 5535 USD. The standard deviation, which is higher than the mean is 6887 USD.

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<sup>1</sup> The FTAA comprises nine negotiating groups. These are, market access, agriculture, government procurement, investment, competition policy, intellectual property rights, services, dispute settlement, subsidies, antidumping and countervailing duties.

Table 1  
FTAA participants  
Indicators of the differences of size and development (2000-2001)

Indicators of the differences in size and development (2000-2001)											
Country	GDP/per capita USD	Economic Structure Percentage of GDP			Unemployment rate	Development		Net migration rate per 1000 habitants	Life expectancy at birth	Size	
		Ag	Ind.	Ser		Education Primary gross enrolment ratio	Illiteracy rate as % of population			Population Thousands	Area Km2
		Ag	Ind.	Ser							
NAFTA											
Canada	22778	3	33	65	7	105		4.79	79	30757	9970609
Mexico	5811	4	28	67	2	114	9	-3.26	72	98872	1958200
United States	34637				4	102		4.53	77	283230	9363520
Mercosur											
Argentina	7695	5	28	68	13	120	3	0.67	73	37032	2766889
Brazil	3494	7	29	64	10	154	15		67	170406	8511969
Paraguay	1368	21	27	52	8	115	7		70	5496	406750
Uruguay	5908	6	27	67	11	113	2	-0.98	74	3337	177410
Andean Community											
Bolivia	994	22	15	63	4		14	-0.89	61	8329	1098580
Colombia	1931	14	31	56	20	112	8	-0.99	70	42105	1138910
Ecuador	1076	10	40	50	12	113	8		70	12646	283560
Peru	2084	8	27	65	8	126	10	-1.14	68	25662	1285220
Venezuela	4985	5	36	59	15		7		72	24170	912050
Central America											
Costa Rica	3940	9	31	59	6		4	5.28	76	4024	51100
El Salvador	2104	10	30	60	7	111	21	-1.27	69	6278	21040
Guatemala	1668	23	20	57		102	31	-2.81	64	11385	108890
Honduras	924	18	32	51	4		25	-0.66	66	6417	112090
Nicaragua	473	32	23	45	13		33	-2.53	68	5071	130000
Panama	3463	7	17	76	12		8	-1.01	74	2856	75520
Caricom											
Antigua and Barbuda	10617	4	19	77						65	440
Bahamas	15837				8	93	5		69	304	13880
Barbados	9718	6	21	73	9	87		-0.94	76	267	430
Belize	3625	21	27	52	13	113	7	-2.33	74	226	22696
Dominica	3827	17	23	59	23					71	750
Grenada	4389	8	24	68	15					94	340
Guyana	936	41	33	26		102	2	-10.64	64	761	214970
Haiti	497	28	20	51		152	50	-2.68	52	8142	27750
Jamaica	2874	6	31	62	16	98	13	-7.36	75	2576	10990
St. Kitts and Nevis	8164	4	26	70						38	360
St. Lucia	4785	8	20	72	18			-6.96	73	148	620
St. Vincent and the Grenadines	2939	10	25	65						113	390
Suriname	2028	10	20	70	11	119		-10.29	70	417	163270
Trinidad and Tobago	5649	2	43	55	13	102	2	-3.13	74	1294	5130
Non-Grouped											
Chile	4638	11	34	56	10	106	4	-0.61	75	15211	756950
Dominican Republic	2349	11	34	55	16	133	16	-1.40	67	8373	48730
Source: UNCTAD (2002). Note: Blank spaces denote that data is unavailable.											

Source: UNCTAD (2002). Note: Blank spaces denote that data is unavailable.

Welfare indices such as the illiteracy rate and the gross enrolment ratio do not show a significant narrowing of these disparities. The average primary gross enrolment ratio for FTAA member countries is 113.3 and the standard of deviation is 16.6.<sup>2</sup> The mean illiteracy rate as a percentage of the population is 12.7% and the standard deviation is 11.8%.

Member countries also exhibit different levels of industrialisation and heterogeneous economic structures. At one end of the spectrum economies like the United States, Canada, Mexico, and Brazil are relatively highly industrialised with a low contribution of agriculture to output relative to manufacturing and services (5%, 30% and 65% for agriculture, industry and services respectively). At the other end of the spectrum, in countries such as Belize, Bolivia, Guatemala, Guyana, Honduras, Nicaragua and Paraguay agriculture contributes close to a third of GDP. Within this sub-group Guyana is the only country in which the contribution of agriculture is greater than that of industry and services (41%, 33% and 26% respectively). The structure of OECS economies is oriented toward services. On average agriculture, industry and services contribute 9%, 23% and 69% to GDP.

The FTAA was founded on the premise that the negotiations leading to the final agreement should recognise the differences in levels of size and development of its member states. However, in practice it recognises mainly their differences in size. The issue is not for example whether the Bahamas has a GDP per capita that approaches that of the United States and therefore should be considered by virtue of this variable to be closer to a developed country but that, in fact, it is smaller in size relative to most other non-English speaking Caribbean economies. In the same way, the issue is not whether Guyana or Nicaragua (both HIPC countries) are at the lower end of the FTAA development scale relative to any other member country with the exception of Haiti, and are as a result deserving of asymmetric treatment. Rather the issue is whether The Bahamas, Nicaragua or Guyana are smaller in size relative to other FTAA countries. It is the variable 'size' and not a development variable (as say, education, literacy or poverty indicators) that determines that The Bahamas, Nicaragua and Guyana be included in the same special category in the FTAA, that of smaller economies, and thus subject to the benefits conferred to the smaller states.

Yet surprisingly the demarcation criterion between what constitutes a smaller and larger economy has not yet been defined or established. This is partially due to the wide economic and social disparities of FTAA member states which allow the adjective 'smaller' to be used in a variety of different contexts making it devoid of any practical use and to some extent simply indefinable. The difficulty in defining 'smaller' is in addition heightened by the fact that within the FTAA there is always an ultimate and absolute comparison. That is, within the FTAA every country is smaller relative to the United States.

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<sup>2</sup> The primary gross enrolment ratio is defined as the total enrolment in a 'specific level of education, regardless of age as a percentage of the official school-age population corresponding to the same level of education in a given school year.' (UNCTAD, 2002).

Ultimately the implicit and explicit prospects entertained by FTAA negotiating countries are two-fold. First, the FTAA is not 'stumbling block' but a building block for the deepening and development of the ultimate multilateral trade agreement, the WTO. Preferential trade arrangements are WTO compatible and even perhaps complementary.

This belief reflects an impending reality. FTAA negotiating countries are -in their great majority- at the same time members of the World Trade Organisation and are signatories to a plurality of free trade agreements, involving free trade areas, customs unions and partial trade agreements. Yet, this spaghetti bowl configuration of trade agreements, which is still in the making as Central America is presently negotiating a free trade agreement with the United States and CARICOM is about to sign a free trade agreement with Costa Rica, casts doubt, to a certain extent, on the real commitment of countries of the American Hemisphere to a regional agreement such as the FTAA.<sup>3</sup>

Second, the recognition of existing disparities implies also that member countries believe that the initial inequality of conditions will not widen and indeed will narrow over time with the implementation of the FTAA. In other words, given due attention to the disparities in size and development, FTAA negotiating countries assume that freer trade and greater market access are basic determinants of a more equal process of integration and indeed the promoters of greater convergence.

In short, the beliefs of negotiating countries are that a regional free trade agreement such as the FTAA will: i) widen and solidify market access leading countries to maintain their preferential market access and act as a springboard for export development and promotion; ii) lead to greater foreign direct investment and that foreign direct investment is an essential source of growth; iii) allow for technological transfer; and iv) improve labour mobility.

However the bulk of the literature on Free Trade Areas and Preferential Trading Areas fails to address these issues. Indeed, it has limited its analysis to the question of whether preferential trading agreements (PTAs, hereafter) are stumbling or building blocks for trade liberalisation and to the comparative static welfare analysis of trade creation versus trade diversion<sup>4</sup> The scope of analysis of this literature applies mainly to first generation trade agreements, that is, to trade agreements that do not take into account capital (investment) or labour mobility, or trade in services. The work which centers on the dynamic effects of FTAs dealing with growth, investment, and technological transfer is still in its infancy and has not delivered yet a comprehensive analysis of the effects of a FTA or PTA on its constituent members. Moreover neither the literature nor the FTAA

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<sup>3</sup> The terms spaghetti-bowl belongs to Bhagwati. In his chapter the FTAA is not Free Trade in The Wind of the Hundred Days (2002, p.244) Bhagwati writes: 'The result is what I have called the 'spaghetti-bowl' phenomenon of numerous and crisscrossing PTAs and innumerable applicable tariff rates arbitrarily determined and often depending on a multiplicity of sources of origin'.

<sup>4</sup> Trade creation refers to a change in production of a good from a high- cost domestic source to a lower-cost source in a partner country. In this case given the fact that the product was not imported there is no loss in exports for any country. Trade diversion refers to a change in production from a lower-cost producer not belonging to the free trade area to a higher-cost producer belonging to the free trade area.

provisions make reference to the set of initial conditions that can determine a country's potential to benefit from a free trade agreement or to the relationship between internal and external economic factors.

## **2. The FTAA underlying principles as stated in its main documents**

The main documents which spell the main underlying principles of the FTAA negotiations are the Guidelines or directives for the Treatment of the Differences in the Levels of Development and Size of Economies (FTAA.TNC/18, November 1, 2002); the Hemispheric Cooperation Program (HCP), the Methods and Modalities for Negotiations (FTAA.TNC/20/Rev.1, October, 18, 2002).

Viewed in their integrity these documents state the following guiding principles. First, the FTAA trade negotiations should be consistent with Article XXIV of GATT and Article V of GATS. Article XXIV authorizes customs unions and free trade zones as an exception to the principle of non-discrimination. The regional agreements and free trade zones are expected to remove barriers to trade with respect to the essential of the trade which originated in the constituting members of the customs union or free trade areas. What is meant exactly by the essential of trade is not defined in the legal texts. In addition, Article XXIV also states that country members may maintain trade restriction among members of a trade agreement on the basis of GATT's articles XI, XII, XIII, XV and XX. Finally, Article XXIV seems concerned with avoiding the trade deviation effect of free trade areas or customs unions and explicitly states that in order to avoid trade deviation, tariff and/or other trade measures should be established at a level, which in their aggregate, does not make these more restrictive than those previously imposed by the individual members.

Second, as stated in the previous section the negotiations will take into account the differences in size and development of the countries. This involves mainly the provision of a flexible, transparent, simple and easily applicable framework that takes into account the heterogeneity, the differing needs, the characteristics that are specific to each member, and the differences in market access among the member countries. As part of the recognition of the differences in size and development member countries have agreed on a Hemispheric Cooperation Plan (HCP) as a supporting pillar of the trade negotiations. The HCP has six objectives. In a nutshell, these can be summarised as providing a basis permitting countries to confront and overcome the challenges associated with trade liberalization.

Third, the FTAA explicitly requires all participating countries to progressively liberalize agricultural, non-agricultural goods, services, investment and government procurement. Thus far it has been agreed that in the negotiations in goods the scope of the negotiations comprise the entire tariff universe. The base for the progressive tariff phase out is the Most Favoured Nation (MFN) applied tariff.<sup>5</sup> The tariff phase out which is linear out will comprise four phases (immediate, less than 5 years, less than 10 years and greater than 10 years).

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<sup>5</sup> This refers to the applied tariff on the date of notification (15 August to 15 October 2002).



Fourth all decisions within the FTAA are taken by consensus and countries have voluntarily agree to offer trade liberalization schedules and proposals.

### 3. The initial conditions: a descriptive approach

The initial conditions as encapsulated by the main macroeconomic indicators are not favourable to the OECS. These are characterised by growth stagnation and the widening over time of macroeconomic disequilibria.

Since the beginning of the conformation of the OECS, the rate of GDP growth has exhibited a declining trend and volatile behaviour (See Table 2 below, Figure 1 below and Figure 7 in the Annex). The average rate of growth of GDP declined from 7.1 to 2.2 and 2.1 between 1985-1990, 1991-1995 and 1996-2002. The variation in the rate of growth of GDP has been high as seen from the computation of the standard deviation of the deviation from trend, which has remained above one for the whole period and is indeed greater than that obtained for other FTAA economies (see Table 34 in the Annex).

Table 2 GDP growth 1985-2002				
Periods	Mean	Standard deviation from trend	Coefficient of variation	RMSE
1985-2002	3.78	1.72	0.46	1.935
1985-1990	7.12	1.99	0.28	1.719
1991-1995	2.16	1.52	0.70	1.429
1996-2002	2.09	1.45	0.69	1.510
Source: On the basis of official information. Note: The coefficient is variation is defined as the ratio of the standard deviation to the mean. RMSE = Root Mean Square Error.				

The decline in growth has been accompanied by mounting macroeconomic imbalances (See Figure 2 below). A comparison of the current account and the government deficits between the first and second half of the 1990's shows that the former rose on average from - 13% to -16% and the latter from -3% to -6% of GDP (without taking into account grants).

Most of the current account deficit is explained by the merchandise trade balance which has roughly doubled in the past ten years. The services balance is the main supplier of foreign exchange as shown in Table 21 in the Annex below and has shown a persistent surplus over time. Services receipts accounted for 22% of GDP in 2001 while Foreign Direct Investment represented 12% in the same year. For their part, grants and unilateral transfers as a percentage of GDP reached 3.6% and 2.2%.

**[FIGURE 1]**

**[FIGURE 2]**

However, the standing surplus has not managed to tone down the widening imbalance in the merchandise account. At the same time foreign net flows and in particular foreign direct investment flows have exhibited an upward trend that is not necessarily related to growth. The correlation coefficient between GDP growth (in constant terms) and foreign direct investment as a percentage of GDP is 0.13 for 1990-2001. The increase in foreign direct investment contrasts with the marked stagnation of domestic investment (See Figure 8 in the annex).

Between 1990 and 2000, foreign direct investment as a percentage of GDP reached 11.5% of GDP. It increased to 13.7% for the period 1996-2000. Contrarily domestic investment as a percentage of GDP rose marginally from 32.1% to 32.5% for the same period (See again Figure 8 in the annex).

In turn the imbalance in the merchandise account is mainly due to export performance. Imports as a percentage of GDP have consistently declined since the middle of the 1970s. In 1975, imports of goods and services represented 90.9% of GDP declining to 54.8% in 2001 (See Figure 9 in the annex). This declining trend has not been particularly affected by the decrease in tariffs which started with the gradual implementation of the Common External Tariff (CET) under the CARICOM Agreement of 1992 whereby countries agreed to reduce import tariffs to a maximum of 20% in six years starting in 1993 (See again Figure 9 in the annex).

The performance of merchandise and service exports was captured using the ratio of exports to the average propensity of import (i.e. the ratio of imports to GDP). When exports are equal to imports, the export performance ratio is equal to GDP (equal to one when normalized by GDP). When exports are greater (less) than imports, the export performance ratio is greater (smaller) than GDP (below or above 1 when normalized by GDP). In the same vein a declining ratio is an indication of a deteriorating export performance.

In the case of both merchandise and service exports, the export performance ratio shows a deteriorating performance for goods and services. Available data for 1993 to 2001 shows that in 1993 the export performance ratio for services was 2.44, reflecting a surplus. In 2001, however, the ratio had declined to 2.08 showing a narrowing of the surplus in the services balance. For the same period, the performance ratio for the merchandise balance was 0.34 in 1993, that is, a deficit by the definition of the export performance ratio, and declined to 0.23 in 2001 reflecting a worsening of the merchandise trade balance (See Figure 10 in the annex)

Table 3 OECS Competitive matrix (Import Share/Market Share) 1985 - 2000						
	1985-1990		1990-1995		1995-2000	
Declining Stars	3.49	10.63	11.88	27.11	18.85	31.85
Missed opportunities	30.53	16.85	17.09	14.55	13.86	8.20
Retreats	59.09	45.43	66.87	43.14	56.02	35.54
Rising Stars	6.29	22.98	3.94	15.13	10.95	24.40
Source: CAN (2002)						

The export performance analysis can be extended through the computation of two different types of competitive matrices. Competitiveness matrices are computed for a given time period. The first matrix combines increases and/or decreases in market share with increases and/or decreases in import share. The second matrix combines increases and/or decreases in export share with increases and/or decreases in import share. The purpose of these matrices is to classify products according to a typology combining market dynamics and product dynamics. The typology classifies products according to rising stars (RS), declining stars (DS), missed opportunity (MO) and retreats (R ).

In the first type of matrix market dynamics (i.e., competitiveness analysis) are proxied by whether a product increases or decreases its share in a given market. In the former case, the demand for the product in the said market is dynamic. In the latter case it is referred to as stagnant demand for the product. Competitiveness movements refer to the change over time of a product in a market with respect to the market share for that product and the share of the product in that market. An increasing country share (say the OECS) in a product whose relative importance in the imports of the reference country or trade partner (say the rest of the world) is growing is referred to as a Rising Star. An increasing (declining) country share (say the OECS) in a product whose relative importance in the imports of the reference country or trade partner (say the rest of the world) is growing (is shrinking) is referred to as a Rising Star (Retreat). A declining country share (say the OECS) in a dynamic (stagnant) product (a product that is increasing (decreasing) its importance in the imports of the rest of the world is referred to as a Missed Opportunity (Declining Star).

A similar reasoning applies to the second type of matrix. The second matrix which combines imports share with specialization shows to what extent the export structure of a country (in this case the OECS) adapts or is in the process of adapting to the import structure of a given market (in this case the rest of the world).

The competitive matrices were computed for three consecutive five year periods (See Tables 3 and 4 above and below) (1985-1990; 1990-1995; 1995-2000). Products that fall under the category of declining stars have increased in the three periods and represent for the last period considered (1995-2000) a third of total exports. Retreats have exhibited a

similar path. This category represents more than a third of total exports. Missed opportunities have showed a consistent decline while rising stars have at least doubled in each period reaching close to a quarter of the total by the end of each year.

Table 4 OECS Competitive matrix (Percentage of imports/percentage of exports) 1985 – 2000						
	1985-1990		1990-1995		1995-2000	
Declining Stars	38.85	46.82	13.00	28.43	16.67	30.36
Missed opportunities	27.39	13.16	11.21	6.66	9.83	3.24
Retreats	23.73	9.25	65.76	41.82	58.19	37.03
Rising Stars	9.43	26.67	9.82	23.01	14.98	29.36
Source: CAN (2002)						

Services form a major portion of OECS domestic economies ranging from 56% to 81% to GDP with a 70% average for the member states considered in the aggregate, and the bulk of OECS' foreign exchange earnings ranging from 65% to 90% of total exports of goods and services with an average of 80% for the OECS as an aggregate. As a result OECS economies are highly specialized in services not only at the regional level but also at the world level. Computations by ECLAC of revealed comparative advantage<sup>6</sup> indices for the services sector from 1980 to 2001 for 147 countries show that Grenada, St. Kitts and Nevis, St. Lucia, Antigua and Barbuda, St. Vincent and the Grenadines and Dominica hold the 9, 14, 15, 24, 28 and 33 ranking respectively. When the same exercise is performed for FTAA countries, OECS member states are ranked among the first ten export service providers (See Table 25 in Annex).

Moreover OECS' specialisation of services has increased over time as expected from the structural change in the composition of output which occurred or which solidified in the 1990's. In addition, the gap between the OECS specialization in services and the rest of FTAA countries has widened over time (See Figure 11 in the Annex). However, in spite of the increasing specialisation over and above that of FTAA countries as a group, the OECS export service share has either stagnated or declined over time (See Figure 16 in the Annex).

Turning the focus of analysis to the internal economic conditions and in particular the fiscal accounts, the regional performance exhibits three definite periods, since 1983,

<sup>6</sup> This follows the methodology of Karsenty (2000), "Just How Big are the Stakes?", GATS 2000: New Directions in Services Trade Liberalization. Pierre Sauve and Robert Stern, eds. Washington, DC. Brookings Institution, 2000. The revealed comparative advantage of say country i for product j is measured by the item's share in the country's exports relative to its share in world trade. The data for the computations were obtained from UNCTAD's Handbook of Statistics, 2002. Data includes transportation, travel, communications, construction, insurance, financial services, royalties and license fees, other business services and personal, cultural and recreational services.

which coincides with the establishment of the Eastern Caribbean Central Bank (ECCB).<sup>7</sup> During the first four years of its existence the fiscal deficits of the ECCB area decreased from -6% to -0.2% of GDP. From 1988 to 1995, the fiscal deficit stabilized and on average reached -2.2% of GDP taking into account grants and -4.0% of GDP net of grants. Since 1996, it has exhibited a steady tendency to increase and has reached on average -3.7% and -6.0% of GDP between 1996 and 2002 with and without grants.<sup>8</sup>

Table 5 OECS Fiscal Indicators 1983 – 2000			
	1983-1987	1988-1995	1996-2002
Current expenditure as % of GDP	24.8	21.9	24.90
Capital expenditure as % of GDP	7.3	6.9	6.80
Personal Emoluments as % of GDP	12.4	11.7	12.97
Interest payments as % of GDP	2.1	1.9	5.02
Expenditure on goods and services as % of GDP	7.3	6.8	2.74
Fiscal deficit w/o grants as % of GDP	-6.1	-4.0	-6.0
Fiscal deficit with grants as % of GDP	-1.5	-2.2	-3.7
Source: Eastern Caribbean Central Bank			

The behaviour of the deficit is mirrored by the behaviour of the fiscal stance. Following Godley (1983, 2001) the fiscal stance is defined as government expenditure divided by the tax ratio (tax revenue over GDP). Formally,

$$(1) FS = G / (T/GDP)$$

Where,

FS = fiscal stance

G = government revenue

T = total tax revenue

GDP = Gross Domestic Product

When the fiscal stance is neutral, that is when tax revenue covers government expenditure,  $G=T$ , the fiscal stance is equal to GDP ( $FS=GDP$ ). The fiscal stance is said to be expansionary when  $G>T$  and  $FS>GDP$ . It is restrictive if  $G<T$  and  $FS<GDP$ . In the case of the OECS member states the fiscal stance (FS) has been expansionary throughout the 1990's decade, as FS has always surpassed GDP (see Figure 3 below). Moreover it has increased in the second part of the decade.

<sup>7</sup> The Eastern Caribbean Currency Union arrangement does not contemplate the possibility of setting a fiscal policy rule or establishing guidelines with respect to fiscal harmonization or fiscal targets as those envisaged in other monetary arrangements or coordination. Central Bank member countries maintain independent fiscal policies, which to some extent, are divorced from monetary policy.

<sup>8</sup> Fiscal imbalances have been aggravated by external shocks.

Figure 3 plots the fiscal stance as a percentage of GDP on average for the OECS economies. This provides a percentage measure of the degree to which these states deviate from a neutral fiscal stance. The base line is equal to zero meaning that there is no deviation from a neutral fiscal policy stance. As seen in Figure 3, the behaviour of the fiscal stance parallels that of the budget deficit. From 1983 to 1987, the government implemented a restrictive fiscal stance. Between 1987 and 1995, the fiscal stance tended to stabilize around a deviation of 30% from a neutral fiscal policy stance. Starting in the second half of the 1990's the deviation has steadily increased reaching more than 50% in 2001 signaling a growing expansive fiscal stance.

The behavior of the fiscal stance corresponds to an increasing trend in government expenditures that has not been accompanied by a higher tax ratio. In fact, the tax ratio has remained virtually constant. On average the tax ratio increased by less than one percentage point (21.3% to 21.9%) between 1983 and 2002.

Overall government expenditures as a percentage of GDP decreased initially from 25% to 22% of GDP between 1983-1987 and 1988-1995. These reverted to an increase of 25% during 1996-2002. The behavior of government expenditures is mainly accounted for by the weight and partly by the trend of personal emoluments (i.e., wages and salaries). Personal emoluments represented on average 12.4% of GDP in 1983-1987, 11.7% during 1988-1995 and 13.0% for 1996-2002. It represented 53% and 42% of current and total expenditure respectively.<sup>9</sup> Also interest payments on external and internal debt play a role (See Table 2), in explaining the behavior of government expenditures. A short exercise aimed at decomposing government expenditure shows that 64% of the increase in current government expenditure with respect to GDP is explained by the increase in personal emoluments and 35% by interest payments on government debt. For its part, expenditures on goods and services have, on average, decreased from 7.3% to 6.8% and to 3% of GDP between 1983-1987; 1988-1995 and 1996-2002.

#### **4. The relationship between the internal and the external macroeconomic conditions and its implications for the analysis of the effects of the FTAA**

Although in the previous section the external and fiscal macroeconomic imbalances were analyzed in isolation one from the other, they are in fact, interrelated. It can be shown that if net asset accumulation by the private sector at the aggregate level is equal to zero, there is a precise relationship between the fiscal stance and the export performance ratio. More to the point when the fiscal stance is greater than the export performance ratio, a fiscal deficit coexists with a balance of payments deficit. This has crucial implications for the analysis of the possible or potential effects of the FTAA on the OECS.

In the case of the OECS it can be safely assumed that the net asset accumulation of the private sector approaches zero. Commercial bank loans, which are the main source

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<sup>9</sup> The stickiness in spending in personal emoluments leaves limited scope for funding productive activity.



of finance in the OECS are mostly and increasingly held by households and private businesses. The ratio of loans and advances to the households and private businesses represented 52% of the total in 1985 and increased to 83% and 85% in 1990 and 1999 reaching 81% in 2001. In terms of GDP these expanded from 13% in 1985 to 71% in 1999 and 75% in 2000. As a result, the ratio of loans and advances to private businesses and households to disposable income has steadily increased over time. As shown in Figure 12 in the Annex loans and advances represented 0.46 of income in 1985. In 2001, the said ratio increased to 0.95. This coefficient, which is very close to one reflect the fact that expenditure is loan generated rather than income generated. That is, there is roughly no asset accumulation.

With this hypothesis in mind and using national accounts it is possible to demonstrate that in a 'quasi steady state' the value of the flow of national income is a weighted average of the export performance ratio and the fiscal stance (Godley and Cripps, 1983; Anyadike-Danes, 1996). As defined in the previous section, the export performance ratio is the ratio of the value of exports to the average propensity to import. The fiscal stance is equal to the ratio of the value of government expenditure to the tax to GDP ratio. Formally,

$$(2) Y = \omega_1 (X/\mu) + \omega_2(G/\theta)$$

Where,

Y = national income

$\omega_1$  and  $\omega_2$  = weights

X = value of exports

$\mu$  = average propensity to import

G= value of government spending

$\theta$  = the government's share or tax collections to national income (tax to GDP ratio)

Accordingly as stated by Anyadike-Danes (1996, p.716) since the flow of national income is a weighted average of the export performance ratio and the fiscal stance, when the fiscal stance is greater than the export performance ratio, national income is smaller than the former and greater than the latter. That is,

$$(3) G/\theta > X/\mu \iff G/\theta > Y > X/\mu$$

In turn this implies that a budget deficit will be by definition accompanied by a deficit in the balance of payments. In other words,

$$(4) G/\theta > Y \iff G > \theta Y \text{ and } X < \mu Y$$

Since  $\theta = T/Y$  and  $\mu = M/Y$ , where  $T$  are taxes and  $M$  imports,

$$(5) \quad G > \theta Y \Leftrightarrow G > (T/Y)Y \Leftrightarrow G > T \Leftrightarrow G - T > 0 \quad (\text{Fiscal deficit})$$

$$X < \mu Y \Leftrightarrow X < (M/Y)Y \Leftrightarrow X < M \Leftrightarrow X - M < 0 \quad (\text{Current account deficit})$$

The computation of the fiscal stance and the export performance ratio over time for the OECS shows that the later has always exceeded the former (See Figure 4) indicating the perennial existence of a twin deficits situation.

Figure 4 also shows that the distance between both widened from 1996 onwards. The further transformation of the fiscal stance and export performance ratio to a normalized scale shows that since 1990 export performance has deteriorated and that the fiscal stance expanded significantly when the export performance ratio had declined to reach its 1990 level (See Figure 5 below).

These results imply that the twin deficits and indeed their resultant increase in the stock of debt will continue to grow, most likely to unsustainable levels, as long as the fiscal stance exceeds the export performance ratio. Note at the risk of being repetitive that these disequilibria are not the result of fiscal policies per se but the outcome of the standing relationship between fiscal policies and external performance.

As it stands, independently of any perspective of free trade agreements, the disequilibria reflected in the initial conditions indicate that the fiscal stance must be aligned sooner or later with the export performance ratio.

In the short run, this calls for an eventual adjustment falling mainly on the fiscal side with the concomitant losses in terms of output and employment. Beyond the short run fiscal adjustment can be avoided only if the export performance improves.

Thus in the short run even under the hypothesis that the FTAA is implemented the contraction in economic activity required by an adjustment will preclude countries from benefiting, at least partially, from the possible or hypothetical initial economic impulse of a free trade agreement. A further and more substantial question is whether the FTAA will be able to alter the existing relationship between the fiscal stance and the export performance ratio to the benefit of the countries involved.

**[Figure 3]**

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**[Figure 4]**

**[Figure 5]**

## 5. Main trends in the trade balance and trade flows

With the exception of the United States and CARICOM (15% and 31% of total exports respectively see Table 6 below and Table 16 in the annex), FTAA member countries represent a small part of the OECS merchandise total imports and exports. Central America, the Andean Community, and Mercosur represent on average 0.19%, 1.19%, and 0.16% of the OECS total merchandise exports. In a similar way the OECS represent an insignificant percentage of these countries trade. As shown in Table 7 below, the OECS accounts for 0.01% of NAFTA, Mercosur, Central America and the Andean Community total import flows.

Table 6 OECS's export market share in FTAA groupings 2001					
	NAFTA	Andean Community	Central America	Mercosur	CARICOM
Anguilla	25.48	....	0.00	0.16	16.7
Antigua and Barbuda	18.86	0.03	0.20	....	54.69
Dominica	15.06	0.01	0.04	0.00	29.69
Grenada	14.72	6.73	0.66	0.79	43.30
Montserrat	9.77	....	....	....	12.03
St. Kitts and Nevis	5.58	0.00	0.03	0.01	17.39
St. Lucia	11.24	0.35	0.42	0.01	38.78
St. Vincent and the Grenadines	23.09	0.01	0.00	0.01	36.94
Average	15.48	1.19	0.19	0.16	31.19
Source: Caribtrade (2003)					

Table 7 OECS market share in goods in regional trading blocks (In percentages) 1985-2000				
Regional block	1985	1990	1995	2000
NAFTA	0.02	0.02	0.01	0.01
Andean Community	0.01	0.06	0.05	0.01
Mercosur	0.00	0.00	0.02	0.00
CACM	0.00	0.00	0.01	0.01
CARICOM (imports)	1.57	1.08	0.93	0.78
Source: Competitive Analysis of Nations (2001) and data provided by the CARICOM Secretariat (2003).				

OECS member states have registered for the past five years, if not more, a persistent and in most cases increasing deficit in their merchandise balance with each of the sub-groupings that conform the FTAA. As shown in Tables 27 to 32 of the annex the

deficit equals to 65 Million US\$, 231 Million US\$, 626 Million US\$, 2,259 Millions and 12 Million US\$ in the cases of Mercosur, the Andean Community, Central America, NAFTA and the Dominican Republic. The dimension of the increase is conveyed by comparing the trade deficit in 1995 with that in 2001 for all major FTAA sub regional groupings (See Figure 6 below).

The decomposition of the trade deficit by regional sub-grouping shows that NAFTA explains 71% of the trade deficit followed by Central America explaining 20% of the deficit and the Andean Community (7%). (See Figure 7 below).

The analysis at the product level shows that OECS member states exhibit a high degree of concentration. The breakdown of product share by major import market shows that the first five commodities represent more that 50% of the total and in some cases up to 85% of the total (see Table 8). Standard computations of an index of concentration and diversification validate these results.

Table 8 Number of commodities exported and diversification and concentration indices for selected Caribbean countries 2000			
Country	Number of commodities exported	Diversification index	Concentration index
Dominica	16	0.630	0.433
Montserrat	25	0.532	0.300
St. Lucia	17	0.824	0.576
St. Kitts and Nevis	14	0.787	0.586
St. Vincent and the Grenadines	22	0.700	0.458
Note: The diversification index refers to the absolute deviation of the country share from the world structure. It is equal to: $D_i = \sum (S_{ij} - S_i)/2$ , where $S_{ij}$ = share of commodity i in total exports of country j. $S_i$ = share of commodity i in total world exports. The diversification index takes higher values as the export structure is less diversified. The concentration index is the Herfindahl-Hirschmann index. The index ranges from 0 to 1. A value of 1 is an indication of maximum concentration. Source: UNCTAD (2002)			

A high degree of export concentration can be highlighted as a source of vulnerability. However, beyond the number of commodities it is important to analyse the type of commodity that is being exported. In this sense, it can be said that a narrower but at the same time higher technologically oriented export base is preferable to a diversified low technological export structure. Thus in fact, it is important not only to analyse the number of commodities but also the type of commodity exported. Using an UNCTAD classification OECS exports to the FTAA sub-groupings were classified into four categories: primary commodities; labor-intensive and resource based manufactures, manufactures with low skill and technology intensity, manufactures with medium skill and technology intensity, manufactures with high skill and technology intensity.

**[INSERT FIGURE 6]**



**[INSERT FIGURE 8]**

**[INSERT FIGURE 9]**

The distribution of commodity exports shows that primary commodities represent the bulk of exports to FTAA member countries (39% of the total) followed by manufactures with medium skill and technology intensity (23% of the total). (See Figure 8 above). Primary commodities constitute a major export product to MERCOSUR and Central America (75% and 37% of the total respectively for 2000).

On the services side the most important facts to highlight with respect to FTAA countries have already been noted above (See Section 3). OECS countries have a higher specialisation in services compared to most FTAA member countries. Table 9 below shows that the OECS has the highest specialisation index among the FTAA regional groupings followed by CARICOM and the non-grouped countries reflecting the services orientation of the Dominican Republic (3.83; 2.85 and 2.06 for 1980-2000 respectively). The table also shows once again an increased specialisation over time in the cases of CARICOM, the non-grouped countries and especially the OECS. For the latter regional grouping the index doubles from the five year period comprising 1980-1985 to that of 1995-2000.

Table 9 Services specialization by FTAA grouping					
Averages/Country groupings	1980-1985	1985-1990	1990-1995	1995-2000	1980-2000
CARICOM	2.54	2.73	2.85	3.18	2.85
OECS	2.20	3.71	3.90	4.41	3.83
MERCOSUR	1.31	1.21	1.23	1.30	1.26
Andean Community	0.87	0.88	0.77	0.70	0.81
MCCA	1.41	1.56	1.64	1.59	1.55
NAFTA	0.93	0.98	0.91	0.82	0.91
Non-grouped	1.62	1.99	2.26	2.37	2.06
Source: On the basis of UNCTAD (2002) data.					

The decomposition of commercial services by category (transport; travel; communications; construction; computer and software; insurance, financial services; royalties and license fees, other business services; and personal, cultural and recreational services) shows that travel is the most important component representing 79% of services exports (See Table 10 below).

The state of existing data allows the classification of services exports only for GATS Modes 1 and 2. Mode 1, which is defined as ‘the supply of a service from the territory of one Member into the territory of any other Member’ is measured as the sum of the commercial services in the disaggregated balance of payments data minus travel. Mode 2, which is defined by GATS as ‘the supply of a service in the territory of a Member to the service consumer of any other member,’ is measured as the sum of travel found in the balance of payment statistics. Mode 3 (defined as ‘the supply of a service by a service supplier of one Member through commercial presence in the territory of any other Member’ ) is proxied by FATS accounts and Mode 4 (defined as ‘the supply of a service by a service supplier of a Member, through presence of natural persons of a

Member in the territory of any other Member') by the balance of payments line, compensation of employees. Data for Modes 3 and 4 are not available in the case of the OECS.

Table 10 OECS Exports of services (decomposition by category and estimations of Mode 1 and Mode 2 of services delivery) 1985 -2000				
	1980-1985	1985-1990	1990-1995	1995-2000
<b>Percentage contribution of services subcategories to the total</b>				
Transport	0.44	9.40	10.94	9.31
Travel	88.91	79.20	77.12	73.83
Other services	10.49	11.39	11.95	16.93
Communications	....	1.64	1.27	....
Construction	....	....	0.12	0.08
Computer and information services	....	....	....	....
Insurance	....	1.01	1.20	2.01
Financial services	....	....	....	1.78
Royalties and license fees	....		0.12	....
Other business services	10.49	7.70	9.17	11.92
Personal, cultural and recreational services	....	....	....	....
Government services n.i.e.		1.71	1.02	1.44
<b>Computations of Modes 1 and 2 of services delivery</b>				
Mode 1 Value (US\$ million)	22.67	104.50	888.70	306.83
Mode 2 Value (US\$ million)	174.17	378.33	1004.04	854.17
Mode 1 Share in total service exports	11.09	20.80	22.88	26.17
Mode 2 Share in total service exports	88.91	79.20	77.12	73.83
Mode 1 Share in GDP	4.09	7.75	10.18	12.12
Mode 2 Share in GDP	26.68	29.14	34.40	34.14
Source: On the basis of UNCTAD (2002)				

The available empirical evidence which permits the classification of services according to Mode 1 and 2 shows that while, as expected and reiterated Mode 2 is the main form of the OECS provision of services, Mode 1 has increased its share over the total provision of services over time and represented 20% of the total in 2001. As a result the gap between both has narrowed over time (See Table 9 above and Figure 15 in the Annex).

In spite of the importance of Mode 2 which is mainly tourism, the OECS has lost market share to other FTAA members and has registered a decline in tourism expenditures. As the Table below shows OECS member states represented 6.1% and 5.8% of total tourist arrivals in 1995 and 2001. Contrarily the Hispanic Caribbean which includes two FTAA countries, Mexico and the Dominican Republic increased its market share for the same period (48% and 53% in 1995 and 2001 respectively) (See Table 10 below).

Table 11 Market share of tourist arrivals			
Sub-region	1995	1999	2001
OECS	6.1	5.9	5.8
CARICOM	28.6	25.4	25.1
Hispanic Caribbean	47.6	53.1	53.3
Note: The Hispanic Caribbean includes Cancun, Cozumel, Cuba, the Dominican Republic and Puerto Rico. Source: Caribbean Tourism Organization (2002)			

## 6. Market access conditions to the major FTAA markets for the OECS: The United States and CARICOM

In the case of the United States market, the United States recognizes five special import programmes. These are the Caribbean Basin Trade Partnership Act (CBTPA), the Caribbean Basin Initiative (CBI), the Generalized System of Preferences (GSP), the Civil Aviation Programme, and the special treatment to pharmaceuticals.<sup>10</sup> The most significant is the Caribbean Basin Initiative which accounts on average for 50% of all exports to the United States. Still a similar percentage of all OECS exports to the United States are not included in any specific program (See Table 11 below)

Table 11 OECS Exports to the United States by special program as percentages of the total 1996 – 2002						
Country	Programme					
	CBTPA	CBI	GSP	CA	Ph	NP
Anguilla	n.r.	n.r.	7.7	0	n.r.	92.2
Antigua and Barbuda	n.r.	9.7	0.6	n.r.	n.r.	89.7
Dominica	n.r.	94.7	0.08	0.001	0.09	5.1
Grenada	n.r.	48.7	0.2	n.r.	n.r.	51.1
St. Lucia	0.0	31.4	1.9	0.0	n.r.	67.1
St. Kitts and Nevis	n.r.	73.7	1.5	n.r.	0.45	24.7
St. Vincent and the Grenadines	n.r.	36.5	1.8	3.7	n.r.	63.0
Average	n.r.	49.1	1.0	1.2	0.3	50.1
Standard deviation	n.r.	30.69	2.64	1.85	0.25	32.18
Note: CBTPA=Caribbean Basin Trade Partnership Act; CBI= Caribbean Basin Initiative; GSP = General System of Preferences; CA= Civil Aviation; Ph=Pharmaceuticals; NP = No program. n.r.= Not reported. Source: On the basis of USITC (2003).						

<sup>10</sup> There is also the production sharing programme, which refer to United States goods exported abroad for processing and returned to the United States. These are mainly textile exports and in the case of CARICOM Caribbean economies represent a small percentage of the total.

Table 12 Tariff conditions for the main products exported by CARICOM Caribbean countries to the United States that are not included into any special programmed , 2002				
Country	HS code	Description	Percentage of total exports 2002	Tariff conditions
Anguilla	98010010	U.S goods returned without having been advanced in value or improved in conditions while abroad.	46.73	MFN text rate Free Ad-Valorem rate 0% Specific component \$0 Collected tariff rate
	22082040	Grape brandy, excluding pisco and singani, in containers not over 4 liters, valued over \$3.43/liter	13.58	MFN text rate Free Ad-Valorem rate 0% Specific component \$0 Collected tariff rate
	22084040	Rum and tafia, in containers each holding not over 4 liters, valued over \$3/proof liter	9.40	MFN text rate Free Ad-Valorem rate 0% Specific component \$0 Collected tariff rate
	90329060	Parts and accessories for automatic regulating or controlling instruments and apparatus, nesi	7.25	MFN text rate 1.7% Ad-Valorem rate 1.7% Specific component \$0 Collected tariff rate
	85422180	Electronic monolithic digital integrated circuits, not elsewhere specified or included	5.86	MFN text rate Free Ad-Valorem rate 0% Specific component \$0 Collected tariff rate
	22042150	Wine other than Tokay (not carbonated), not over 14% alcohol, in containers not over 2 liters	5.63	MFN text rate 6.3 cents per liter Ad-Valorem rate 0% Specific component \$0.063 Collected tariff rate
Antigua and Barbuda	98010010	U.S goods returned without having been advanced in value or improved in conditions while abroad.	61.12	MFN text rate Free Ad-Valorem rate 0% Specific component \$0 Collected tariff rate
	25059000	Natural sands, other than silica or quartz sands and other than metal-bearing sands of chapter 26	17.48	MFN text rate Free Ad-Valorem rate 0% Specific component \$0 Collected tariff rate
Grenada	03023200	Yellowfin tunas, fresh or chilled, excluding fillets, other meat portions, livers and roes	31.91	MFN text rate Free Ad-Valorem rate 0% Specific component \$0 Collected tariff rate
	09081000	Nutmeg	27.97	MFN text rate Free Ad-Valorem rate 0% Specific component \$0 Collected tariff rate
Source: On the basis of information provided by USTIC (2003) and MAGIC (2003).				

Table 12 Tariff conditions for the main products exported by CARICOM Caribbean countries to the United States that are not included into any special programmed 2002 (Continuation)				
	33012950	Essential oils other than those of citrus fruits, nesoi	21.66	MFN text rate Free Ad-Valorem rate 0% Specific component \$0 Collected tariff rate
	99999500	Estimated imports of low valued transactions	9.47	n.r.
	98010010	U.S goods returned without having been advanced in value or improved in conditions while abroad.	3.61	MFN text rate Free Ad-Valorem rate 0% Specific component \$0 Collected tariff rate
St. Lucia	85334080	Electrical variable resistors, other than wirewound, including rheostats and potentiometers	14.42	MFN text rate Free Ad-Valorem rate 0% Specific component \$0 Collected tariff rate
	98010010	U.S goods returned without having been advanced in value or improved in conditions while abroad.	8.53	MFN text rate Free Ad-Valorem rate 0% Specific component \$0 Collected tariff rate
	99999500	Estimated imports of low valued transactions	4.43	n.r.
	85332100	Electrical fixed resistors, other than composition or film type carbon resistors, for a power handling capacity not exceeding 20 W	3.73	MFN text rate Free Ad-Valorem rate 0% Specific component \$0 Collected tariff rate
St. Vincent and the Grenadines	03034100	Albacore or longfinned tunas, frozen, excluding fillets, other meat portions, livers and roes	54.90	MFN text rate Free Ad-Valorem rate 0% Specific component \$0 Collected tariff rate
	97011000	Paintings, drawings (o/than of 4906) and pastels, executed entirely by hand, whether or not framed	5.94	MFN text rate Free Ad-Valorem rate 0% Specific component \$0 Collected tariff rate
	98010010	U.S. goods returned without having been advanced in value or improved in condition while abroad	2.36	MFN text rate Free Ad-Valorem rate 0% Specific component \$0 Collected tariff rate
	99999500	Estimated imports of low valued transactions	2.04	MFN text rate Free Ad-Valorem rate 0% Specific component \$0 Collected tariff rate
Source: On the basis of information provided by USTIC (2003) and MAGIC (2003).				

An analysis of the major products that are not exported under any program show however that these are imported by the United States with a 0% *ad valorem* tariff rate and that only in some cases do other import charges apply (See Table 8 above). Another measure of the degree to which the United States import market is effectively open to OECS imports that are not included into any program is the collected import tariff rate measured as the ratio of import charges to the total C.I.F value of imports. In most cases this ratio tends to be very low.

In the case of the CARICOM market, OECS products benefit from preferential market access guaranteed by the structure of the Common External Tariff and by the provisions granted to the less developed economies in the revised treaty of Chaguaramas. An analysis of intra-regional trade at the product level for CARICOM and the OECS shows that the main export products of the OECS to CARICOM are classified under the list of ineligibles for conditional duty exemption. These items comprise those traded goods for which regional output can supply a minimum of 75% of regional demand. In addition these main export products have, with a few exceptions, a market structure that is non-competitive. In other words, there are grounds for sustaining that the lack of competition has underpinned the export dynamics for these products



Export Product					CET	Competition	Increasing market share			Increasing percentage of exports		
	1985	1990	1995	2000			85-90	90-95	95-2000	85-90	90-95	95-2000
554 Soap, cleansing and polishing preparations;	9.542	17.097	18.047	14.022	I	NC	13.7	-18.47	.....	79.17	5.56	.....
046 Meal and flour of wheat and flour of meslin;	5.868	8.407	11.962	11.708	I	NC	46.21	35.75	.....	43.26	42.29	.....
112 Alcoholic beverages;	1.977	4.271	5.488	10.602	C	NC	34.69	15.10	51.27	116.02	28.51	93.17
642 Paper and paperboard, cut to size or shape, articles of;	7.482	10.934	11.488	6.786	I	NC	4.44	85.41	.....	46.14	76.31	.....
042 Rice;	0	3.478	8.517	6.785	...	NC	147.04	.....	.....	144.88	.....	.....
553 Perfumery, cosmetic and toilet preparations;	0.068	1.12	0.656	6.318	I	NC	.....	.....	689.52	.....	.....	862.72
111 Non-alcoholic beverages n.e.s.;	0.804	2.189	2.675	4.563	I	NC	73.06	-41.86	52.85	172.42	22.23	70.54
057 Fruit and nuts (not oil nuts) fresh or dried;	8.83	3.033	3.503	4.226	I	NC	.....	-16.82	-21.95	.....	15.50	20.63
533 Pigments, paints, varnishes and related materials;	0.94	2.289	3.262	3.631	I	NC	46.32	5.76	-14.78	143.57	42.46	11.32
674 Universals, plates and sheets, of iron or steel;	6.227	3.791	2.367	3.374	I	NC	.....	.....	24.35	.....	.....	42.55
054 Vegetables, fresh, chilled, frozen or simply preserved;	27.09	.....	0.462	3.141	I	NC	.....	.....	395.61	.....	.....	579.59
081 Feeding stuff for animals (excl. unmilled cereals);	2.928	2.677	2.948	2.746	I	NC	11.60	-12.75	.....	-8.57	10.12	.....
591 Disinfectants, insecticides, fungicides, etc.;	.....	0.128	2.229	1.907	I	NC	.....	1277.64	.....	.....	1645.77	.....
846 Under garments, knitted or crocheted;	2.415	1.705	1.295	1.381	B	C	.....	.....	89.74	.....	.....	6.62
893 Articles, n.e.s., of materials of division 58;	0.283	0.904	1.822	1.15	I	....	120.60	29.67	.....	219.61	101.44	.....
273 Stone, sand and gravel;	.....	.....	0.384	1.061	I	NC	.....	.....	96.48	.....	.....	176.06
048 Cereal preparations and preparations of flour, starch;	.....	0.464	1.14	1.017	C	NC	81.42	69.04	.....	179.50	145.69	.....
793 Ships, boats (incl. hover craft), floating struct;	.....	0.309	1.69	0.846	I	C	.....	60.76	.....	.....	446.55	.....
678 Tubes, pipes and fittings, of iron or steel;	.....	.....	0.009	0.764	I	NC	.....	.....	5968.08	.....	.....	8150.59
592 Starches, inulin and wheat gluten, etc.;	.....	0.164	0.483	0.643	I	NC	.....	135.42	13.92	.....	195.58	33.02
661 Lime, cement, and fabricated construction materials;	.....	.....	0.458	0.635	I	NC	.....	251.76	0.15	.....	601.00	38.62
635 Wood manufactures, n.e.s.;	.....	.....	0.119	0.603	I	NC	.....	.....	258.02	.....	.....	405.42
091 Margarine and shortening;	1.98	1.799	1.268	0.583	I	NC	.....	.....	.....	.....	.....	.....
821 Furniture and parts thereof;	2.344	.....	0.402	0.558	I	NC	-0.17	.....	-22.35	.....	2256	38.59
562 Fertilizers, manufactured;	.....	.....	0.289	0.553	I	NC	.....	.....	225.86	.....	.....	91.37
Percentage of total exports	78.778	64.759	82.963	89.603								

Note: C and B refer to the Lists B and C of the CET. I denote products forming part of the List of Ineligibles for conditional duty exemptions. NC denotes not competitive. C denotes competitive. Source: CAN (2000).

## 7. The tariff question

As part of the gradual formation of the FTAA countries are committed to tariff reductions and the majority have submitted tariff reduction offers. Depending on a set of assumptions, tariff cuts can affect costs and hence prices, import growth and government fiscal revenues. This in turn can have a significant effect on macroeconomic stability and in general on the policy orientation of the authorities.

The overall price level in any economy is a weighted average of the domestic produced finished goods and imported goods. The price of domestically produced goods is a function of normalized unit costs of production weighted by intermediate materials and their corresponding tariff rates. The price of imported goods is a function of its corresponding tariff and the exchange rate.<sup>11</sup> In the case of the OECS there is limited data availability to establish or define the relationship between tariffs, costs and prices.

The effect on import growth will depend, other things being equal, on the income elasticity of the demand for imports to a price change. In the standard formulation imports are a function of domestic income and the real exchange rate. Formally,

$$(6) M_t = Y^{\varepsilon} (P_{fdc}/P_t)^{\pi}$$

From the previous reasoning it follows that a change in tariffs will affect import demand to extent that it affects prices and to the extent that prices affect the demand for imports. If a change in tariffs does not affect prices then imports will not bulge. In the

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<sup>11</sup> Formally,

$$(7) P_t = (P_d)^{\beta} P_{fdc}^{(1-\beta)}$$

$$(8) P_d = \mu U(w, \omega, \tau_i \varphi)$$

$$(9) P_{fdc} = \tau_f (e P_{ffc})$$

Where,

$P_t$  is the overall domestic price level.

$P_d$  is the price of domestic goods.

$P_{fdc}$  is the price of imported goods expressed in domestic currency.

$P_{ffc}$  is the price of imported goods expressed in foreign currency.

$e$  is the nominal exchange rate.

$\tau_i$  and  $\tau_f$  are the tariff rates applied on the value of intermediate imported good and final goods.

$U(\dots)$  is normalised costs of production.

$\mu$  is a mark-up.

$\omega$  is the weight of imported raw materials in the production of the domestic good.

$\varphi$  is the weight of domestic raw materials in the production of the domestic good.

$w$  is the weight of the wage bill.

$\beta$  and  $(1-\beta)$  are the shares of domestically and foreign produced consumer goods and services in total expenditure.

Substitution of (3) and (2) in (1) yields,

$$P_t = (\mu U(w, \omega, \tau_i \varphi))^{\beta} (\tau_f (e P_{ffc}))^{(1-\beta)}$$

same vein if tariffs affect prices but import demand is insensitive to prices, a reduction in tariffs will not lead to an increase in the demand for imports. More to the point if the price elasticity of the demand for imports is less than 1, a reduction of tariffs of 1% will result in an increase in imports of less than 1%. At the other extreme if the price elasticity of the demand for imports is greater than 1, a reduction of tariffs of 1% will result in an increase in the demand for imports that is greater than 1%.<sup>12</sup> Thus in the latter case tariff reduction will lead to import growth.

The available empirical evidence shows that the relationship between relative prices (the real exchange rate) and imports is weak. Real exchange rates in the Caribbean have shown a tendency to appreciate over time making imports cheaper (See Table 33 in the Annex). Yet as stated previously total imports as a percentage of GDP have declined for the majority of Caribbean countries not responding to the relative price change. On average the real effective exchange rate moved from 100 to 111.1 between 1980 and 1999 signalling an appreciation of 11%. Contrary to what would be expected during the same period imports as a percentage of GDP decreased from 83% to 58%. The degree of association of both variables is weak. The simple correlation coefficient is 0.09 for the OECS average.

Additional quantitative analysis provides further evidence for these findings. Table 14 below shows the correlation coefficient between the ratio of imports of goods and services to GDP and the real effective exchange rate and, when available that between the ratio of total imports of goods to GDP and the effective real exchange rate. The correlation coefficient is with a few exceptions negative or below 0.40, reflecting a low degree of association between both variables. Table 14 below also shows the results of the application of cointegration techniques to both variables.

Cointegration is a standard technique for testing the presence of a stable long-run relationship among a set of variables. It consists of a two-step procedure. The first step establishes the order of integration of each variable –that is the number of times that the variable must be first-differenced to obtain stationary series. Once it has been verified that the variables under study have compatible orders of integration, the second step consists in determining whether there is at least one linear combination of them that is stationary. In such case the variables are said to be cointegrated and the specific values of the stationary linear combinations are called cointegrating vectors. This step was carried out using the Johansen procedure.<sup>13</sup>

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<sup>12</sup> Under the *Ceteris Paribus* assumption.

<sup>13</sup> The Johansen procedure is a maximum-likelihood method to test the the existence of a stable long-run relationship between sets of variables.

Table 14  
Cointegration equations results

Country	RER	Imports/GDP				Correlation coefficient		Cointegration Results				Cointegration equation
	Mean	Mean		Coefficient of variation				Ho	Ha	Johansen	CV	
		Total	Goods	Total	Goods	Total	Goods					
Antigua and Barbuda	109.6	71.03	67.58	0.16	0.24	0.63	0.47	r=0 r<1	r=1 r=2			LM=0.009+1.03LRER 0.05 1.20
Dominica	108.3	58.4	53.2	0.15	0.22	-0.57	-0.23	r=0 r<1	r=1 r=2			LM=0.30+0.60LRER 3.00 0.90
Grenada	106.3	56.2	52.4	0.11	0.14	0.05	0.08	r=0 r<1	r=1 r=2			LM=0.006+0.98LRER 2.97 0.63
St. Kitts and Nevis								r=0 r<1	r=1 r=2			
St. Lucia								r=0 r<1	r=1 r=2			
St. Vincent and the Grenadines								r=0 r<1	r=1 r=2			

Source: On the basis of IMF Financial Statistics (2002); ECCB National Accounts Statistics (2002)  
ECLAC Economic Overview of Caribbean Economies (2002).

The results of the cointegration exercise show that the method followed identifies the existence of a long-run relationship between the effective real exchange rate and imports of goods and services as a percentage of GDP. However, the cointegrating equations, which were obtained by adding an over-identifying restriction to the corresponding cointegrating vector show that the real effective exchange rate is not statistically significant.

The results here obtained are by no means new. They mirror those of earlier studies. Table 15 below presents a selection of the price elasticity and its statistical significance from a World Bank document published in 1999 (See Table 15 below).<sup>14</sup>

Table 15 Import price elasticity and its statistical significance for OECS of a World Bank document		
Country	Price elasticity	T-statistic
Grenada	0.22	0.46*
St. Kitts and Nevis	2.80	1.59*
St. Vincent and the Grenadines	1.09	2.30*
Note: * denotes not statistically significant.		
Source: Devarajan et. Al. (1999). Policy research Working Paper 2162. World Bank.		

## 8. Trade tax dependency

The impact of a tariff reduction on fiscal revenues will be determined by the above described price and import growth effect and by the importance of import and international trade taxes as a source of government revenue.

Government revenue on imports refers both to trade tax revenues which comprises trade taxes, *per se*, that is import duties, airport tax, hotel and guest house tax and the like and to domestic taxes levied on imported goods (consumption tax, valued added tax and any other indirect tax).

Table 16 below shows, when available, the breakdown of taxes on international trade and transactions by country for the year 2002. These taxes include, trade taxes *per se*, that is, import duties, embarkation tax, foreign currency tax, customs service charge, stamp taxes, that is taxes levied at the country frontier when goods cross a country border and taxes levied domestically on the consumption of foreign products. The later are considered domestic taxes.

<sup>14</sup> More recently similar results have been obtained for the case of Jamaica.

Table 16 Import tax classification and presentation by country		
Country	Presentation format	Import tax dependency Percentage of total tax revenue (2002)
Anguilla	International trade and transactions	53.87
	Import duties	46.69
	Foreign exchange tax	1.43
Antigua and Barbuda	International trade and transactions	60.40
	Import duties	15.53
	Consumption tax	24.64
	Customs service charge	12.58
	Foreign currency levy	1.97
Dominica	International trade and transactions	52.71
	Import duties	12.08
	Foreign exchange tax	
	Consumption tax	31.71
Grenada	Customs service charge	3.70
	International trade and transactions	57.65
	Import duties	12.07
	Foreign exchange tax	0
	Consumption tax	31.90
Montserrat	Customs service charge	9.70
	International trade and transactions	45.34
	Import duties	9.21
	Foreign exchange tax	3.63
	Consumption tax	16.44
St. Kitts and Nevis	Customs service charge	14.86
	International trade and transactions	49.17
	Import duties	15.89
	Foreign exchange tax	0.00
	Consumption tax	23.95
St. Lucia	Customs service charge	7.42
	International trade and transactions	52.08
	Import duties	13.97
	Foreign exchange tax	0.00
	Consumption tax	26.64
St. Vincent and the Grenadines	Customs service charge	7.45
	International trade and transactions	48.77
	Import duties	9.84
	Foreign exchange tax	.....
	Consumption tax	30.0
	Customs service charge	6.99

Source: On the basis of official data.

With the exception Anguilla where the revenue from import duties constitutes the bulk of the revenue from international trade and transactions, import duties, *per se*, are not the major source of revenue from international trade and transactions. In some cases the customs service charge is as important or more important than imports duties. Table 16 also shows further computations showing that import duties represent less than a third of government revenue from international trade and transactions. The weight of import duties in total tax revenues oscillates between 7% and 16% for the majority of the countries here considered.

As mentioned above, import duties are complemented by other international trade taxes. In the cases of Antigua and Barbuda (See again Table 16 above) and Montserrat these constitute a significant source of revenue roughly equalling or surpassing tax collection from import duties. For the rest of the countries these represent only close to 15% of international trade and transactions.

By far the bulk of revenue collection included under the rubric international trade and transactions is accounted for by the consumption tax representing close to a quarter of total tax revenue and 40% of international trade and transactions tax revenue. The consumption tax applied to imports is a tax levied on the CIF value of imports plus the import duty. It is tax that is generally paid by the importer.

The consumption tax structure is country specific. The rates vary from 15% to 30% in Antigua and Barbuda, 5% to 20% in the case of St. Kitts and Nevis, 0% to 65% in the case of St. Vincent and the Grenadines and 0% to 75% in the case of Grenada. Dominica is the only OECS member state with a standard rate (25%).

## **9. The FTAA and national sectoral policy**

### **9.1. The antecedents to national sectoral policy**

Following their process of independence CARICOM Caribbean countries adopted a strategy termed industrialisation by invitation. In practice the strategy was conceived initially as a regional rather than a national strategy and consisted of three main elements, measures to attract foreign direct investment, fiscal subsidies and the design and implementation of the common external tariff. These were complemented with a policy of industrial reallocation a few non-fiscal incentives and in some cases the granting of residential rights.

The policy of fiscal subsidies, at the regional level, was formalized in the Agreement for the Harmonization of Fiscal Incentives (1973).<sup>15</sup> This agreement conceived fiscal policy as a microeconomic tool providing incentives to develop the manufacturing, mining and tourism sectors. More specifically the agreement sought to promote investment from domestic and foreign sources; reduce competition among members by placing ceiling on benefits; target incentives at enterprises with high value added; and seek regional convergence by giving greater fiscal incentives to the LDC's.

The instruments included profit tax holidays, tariff exemptions, export allowances for extra-regional exports following the expiration of the tax holidays, dividend payments, loss-carry forward, and depreciation allowances. Table 17 below summarizes the fiscal incentives under the Harmonization scheme.

The scheme of fiscal incentives had a number of characteristics in terms of exemptions, its implementation procedure and its sectoral distribution.

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<sup>15</sup> See, Treaty establishing the Caribbean Community (Chaguaramas, 4<sup>th</sup> July 1973), p.43. Caribbean Community Secretariat. November, 1982.

First, the scheme was targeted mainly to promote industrialization in the Less Developing Countries of CARICOM. A World Bank report (1990) found that relative to their size the Less Developing Countries had a greater number of firms receiving fiscal incentives than the More Developed Countries. As an example in 1989 the number of firms that benefited from fiscal incentives in St. Vincent and the Grenadines and St. Lucia was 85 and 82 respectively while Barbados and Belize had 48 and 39 firms each receiving fiscal incentives.

Second the government's provisions included in the scheme such as, rental subsidies, the facilitation of infrastructure, and human capital enhancement through the provision of training jointly with the perception that the incentives scheme was of a temporary nature encouraged the establishment of labor intensive and footloose firms.

Third at the sectoral level, the incentives schemes promoted the diversification of the productive base and stimulated the establishment of firms that specialized in non-traditional products. Firms in Less Developed Countries specialized in textiles, food processing and electronics. In the More Developed Countries, firms under the incentives scheme specialized in electronics and plastics.

Fourth while the legal framework was conceived at a regional level, its implementation was carried out at the national level. Thus the regional interests in targeting did not necessarily coincide with that of the individual countries. As a result CARICOM countries exhibited a different distribution of fiscal incentives by firms and sector.



Table 17 Fiscal Incentives of CARICOM economies Harmonization of Fiscal Incentives Act, 1973			
Profit Holiday	Duration (number of years)		
	MDC's	Barbados	LDC's
When 100% of sales are exported extra-regionally.	10	10	15
When the local value added exceeds 50% of total sales.	9	10	15
When the local value added is comprised within a range of 25%-49%.	7	8	12
When the local value added is comprised within a range of 10%-24%.	5	6	10
When the industry is highly capital intensive: LDC's when the initial investment > EC\$25 million MDC's when the initial investment > EC\$50 million	10	10	15
Tariff exemptions	For the duration of the above tax holidays, inputs, machinery and spare parts can be imported duty free; all materials and equipment for new factories can be imported duty-free.		
Export allowance for extra-regional exports after expiration of tax holiday  When exports profits > 61% of the total. When export profits are comprised between 41% and 61% of the total. When export profits are comprised between 21% and 41% of the total. When export profits are comprised between 10% and 21% of the total.	Tax relief of 50% up to 5 years Tax relief of 45% up to 5 years Tax relief of 35% up to 5 years		
Dividend payments	During the validity of the above tax holiday dividends paid to shareholders are tax exempt.		
Loss carry-forward	Can carry forward losses for up to five years after the tax holiday expires.		
Depreciation allowance	After the tax holiday expires, a deduction of up to 20% on any capital expenditure incurred.		
Source: McIntyre, 1995 & World Bank, 1990			

## 9.2. The current national strategies of the OECS

At the same time that countries implemented the Harmonization Fiscal Incentives Act, they applied a comprehensive package of domestic tax incentives policy as part of their national development policies that were suited to the specificities of each of these economies and overhauled the regional incentives scheme. The national schemes remain

to this day the main vehicle for the provision of tax incentives and the main tool for developing sectoral policies.

In the case of the Member States of the Organization of the Eastern Caribbean States fiscal incentives policies are mainly aimed at enhancing the development of the manufacturing and services sector. These consist comprise for the most part in a Fiscal Incentives Act dating to the 1970 or the 1980's decade; a Hotel Aids or Ordinance Act, and a range of tariff and duty exemptions. Some of these duty exemptions are granted under the Conditional Duty Exemptions of the Common External Tariff while others are granted on a government discretionary basis. In some cases (such as that of Dominica and St. Kitts and Nevis) these are also complemented with the granting of residential rights in order to attract foreign direct investment.

In the case of Antigua and Barbuda, Dominica, Grenada, St Lucia and St. Vincent and the Grenadines the fiscal legislation grants tax exemptions according to definite criteria including the content of local value and export orientation of production. Local value is defined as the difference between realized sales over 12 months and the cost of imported raw materials, components and part of components, fuels and services and wages and salaries. The fiscal incentives act also allows the duty-free importation of machinery, equipment, spare parts, building materials, raw and packaging materials. For its part the Hotels Aid Act can grant a tax holiday of up to twenty years for approved hotel and resort developments in the cases of Antigua and Barbuda and Dominica.<sup>16</sup> For Grenada the Hotel Aids Act grants exemption on taxes from profits for ten years including hotels, apartments, and guest houses and also provides exemptions from Customs Duties and taxes on articles of hotel equipment, service vehicles, materials for construction and repair renovation and extensions to hotel properties.

In addition a the recent WTO trade policy review of the OECS notes that, "companies that are registered under the International Business Companies Act of 1982 are exempt form the payment of taxes, duties and fiscal charges for a period of twenty years from the date of incorporation." In the case of Dominica the 1992 amendment to the fiscal incentives act of 1974 introduced an income tax credit granted in the case of capital expenditures for the construction, acquisition or improvements of assets.

Dominica also has approved an Aid to Development Enterprises Act which grants duty exemptions for raw materials, inputs, materials, tools, plant, machinery and building materials which are used in the production of manufactures, construction of factories, hotels and packaging activities. Between 1996 and 2000, the tourism sector firms accounted for 53% of all firms receiving fiscal incentives followed by the manufacturing sector (45%). (See Table 18 below)

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<sup>16</sup> In Dominica the Hotels Aid act was passed in 1984. In St. Lucia, the Tourism Incentives Act was passed in 1996.

Table 18 Distribution of tax incentives by economic sector (1996-2000) The case of Dominica	
Beneficiary	Percent of the total
Manufacturing sector	45
Tourism sector	53
Other services	22
Source: World Trade Organization (2001)	

Grenada, St. Lucia, St. Vincent and the Grenadines have extended further the benefits derived from tax concessions. Grenada has provided tax relief on the export profits that are realized on the external sales of approved manufactured products. The authorities also permit firms that do not qualify for the benefits of the Fiscal Incentives Act and that have a local value in their production of 40% and above to obtain imports duty concessions as provided in the List of Conditional Duty Exemption of CARICOM's Common External Tariff. St. Lucia has provided a similar set of provisions. In 1999/2000, the St. Lucian authorities announced further stimulus by exempting manufacturers from the payments of customs service charge and the introduction in the next fiscal year of a consumption tax rebate. Finally, in St. Lucia primary producing agricultural enterprises are exempt from the income tax.

The extent to which fiscal incentives in the form of tariff exemptions is prevalent is reflected by the difference between the actual and the collected tariff rate. In all OECS economies the collected tariff rate is markedly below the average tariff rate. On average the ratio of the collected import tariff rate to the actual tariff rate is 0.60. That is the actual tariff rate represents only 60% of the average nominal tariff rate (See Table 19 below). This may reflect the fact that the actual level of tariff rates is determined by a high percentage of import duty exemptions (i.e., a narrow tax base) which is ultimately the outcome of a conscious economic policy choice. In this sense, if it is at all considered that OECS economies are dependent on high import duties, this dependency is the product of a conscious sectoral policy whose main leverage are tax incentives.

The cost of fiscal incentives can be high as illustrated in the case of St. Kitts and Nevis. Table 20 below shows computations of imports exempted from taxation for St. Kitts for 2000 in Eastern Caribbean Dollars and as a percentage of total imports. According to the data presented more than 58% of imports (equivalent to 31% of GDP) are exempt from import duties, 50% from the consumption tax and 39% from the service charge. Of this total the fiscal incentives act accounts for 14% of all the imports (representing 7.3% of GDP) that are exempted from the payment of duty, consumption tax and service charge. (See again Table 20 below).

Table 19  
OECS  
Import duties, customs service charge, average tariff and collected tariffs  
2001

[illegible]

Table 20		
Estimations of exemptions as percentage of imports (2000)		
	As a percentage of GDP	As a percentage of total imports
Exemptions from duty, consumption tax and service charge		11.5
Government statutory bodies	6.2	11.5
Government legislation	6.2	<b>13.6</b>
Fiscal incentives Act	7.3	0.2
Hotel aids act	0.1	1.6
Other exemptions	0.9	
Exemptions from import duties and consumption tax	6.2	<b>11.6</b>
Exemptions from import duties		
CARICOM imports	4.2	<b>7.8</b>
Other	0.3	0.6
Exemption from consumption tax	0.0	0.0
Total	53.6	100
Total exempt from import duty	31.3	58.5
Total exempt from consumption tax	26.9	50.2
Total exempt from service charge	20.7	38.6
Source: Government of St. Kitts and Nevis		

The reduction in tariffs that will accompany the conformation of the FTAA will reduce the cost of fiscal incentives and free resources for alternative uses. However, due to the fact that a reduction in tariffs may create or widen the present fiscal gap (See Section 3 above) that will have to be compensated with a broader tax base, a free trade agreement such as the FTAA will severely limit the capacity of OECS governments to pursue domestic policy objectives unless governments are able to find alternative non-fiscal instruments to promote the development of key productive sectors.

## 10. The OECS within the FTAA: A recapitulation of the empirical evidence

The FTAA texts take into account the differences of size and development in the economies. However, thus far the absence of a clear definition of what constitutes a smaller economy has hampered the complete fulfilment of this objective.

In addition, the FTAA texts forget to mention that the initial short-term conditions can also play a fundamental role in determining the costs and benefits of joining a regional free trade agreement and that there is necessarily, at least in the case of the OECS economies, a definite relationship between the internal and the external macroeconomic conditions.

In other words, the outcome of a free trade agreement and the ability of countries to profit and take advantage of a free trade agreement are not independent of the initial conditions. Ultimately the evolution of these conditions may actually determine, in part, both the unfolding dynamics of a free trade agreement, the extent to which countries may be able to fulfil its commitments and obligations as well as its costs and benefits.

The present short-term initial conditions of the OECS are: (i) stagnation in growth; (ii) stagnation in domestic investment; (iii) a pattern of foreign direct investment that does not seem to significantly contribute to growth or development; (iv) impending long-term macroeconomic disequilibria including high current account and fiscal deficits and in some cases mounting debt which may lead, in the absence of corrective policies to unstable debt dynamics. This is reflected in a fiscal stance which is systematically greater than the export performance ratio.

These delicate conditions may clearly undermine the benefits of a free trade agreement. Policy choices are far from obvious and the adequate mix will be very hard to strike. Aligning the fiscal stance with the export performance ratio is a complex issue requiring the coordination of short run with long run economic policies. Expansionary policies will have a definite negative effect on the fiscal and external accounts while orthodox corrective policies which are mainly contractive policies may accentuate the present state of stagnation.

On the external front, OECS member states have registered, as an aggregate, a declining trend in imports. Imports do not seem to have responded to liberalisation measures and tariff reductions. In other words, imports do not seem to be price sensitive.

However, the deterioration of export performance over time in both goods and services has not allowed OECS member states to take advantage of this declining import trend to improve their external performance. Thus the empirical evidence suggests that, the reduction in tariffs which will accompany the conformation of the FTAA may be either a non-issue or at the most a minor one when analysing its effect on import growth.

Countries should focus instead on export promotion policies, which is the key to capitalising and capturing the benefits that a FTAA can offer. In this regard, countries need to define clear export promotion objectives and instruments and have a clear understanding of the different type of export promotion policies and their associated costs. Nonetheless, the question remains how are OECS economies assumed to be able to develop their export sector under the imbalances and growth stagnation described above? This is a key issue that must be addressed.

FTAA member countries have a weak trading relationship with the OECS. With the exception of the United States and CARICOM, all regional trade groupings represent an insignificant part of OECS trade flows. Moreover, the OECS has a balance of trade deficit with all of the sub-regional groupings. NAFTA explains 75% of that deficit.

Half of the OECS commodity exports to the United States, the main trading partner within NAFTA, enter through the Caribbean Basin Initiative while the other half does not benefit from any preferential access program whatsoever. Still, the export commodities included in the later enter the United States duty free. Thus the main question for the OECS regarding its main trading partner in the FTAA, the United States, is whether the CBI trading arrangement will still remain in force in the long run or be replaced by similar market access conditions.

The OECS main and most dynamic commodity exports to CARICOM are goods which benefit from a high degree of protectionism. These form part of the category of goods which are ineligible for duty exemptions. In addition the national production of these goods also benefit from restrictive supply conditions. Thus evidence indicates that intra-regional trade is underpinned by restricted market access conditions. The process of liberalization associated with the FTAA will have a significant impact on OECS intraregional trade with CARICOM as the preferences which form the basis for the intraregional trade impetus are eroded and gradually removed. It will also affect output and employment. Governments should delineate economic policy options to deal with the effects that the removal of tariff will have on intra-regional trade and on the firm structure of the OECS.

The case of services shows a marked specialisation of OECS member surpassing that of any other FTAA regional grouping. This specialisation which has increased over time has been accompanied by market share stagnation or loss and a change in the provision of services favouring the delivery of services through Mode 1. While Mode 2 remains the predominant form of services provision, its contribution to services exports has registered a declining trend since the middle of the 1980's. This can be partly attributed to the deterioration in tourism performance. OECS have lost market to low cost tourism destinations.

Finally the FTAA may impinge on the governments' ability to carry out and implement domestic policy. This is directly related to the decline in tariffs that will take place as a result of the FTAA coupled with the importance of fiscal incentives as one of the main tools for the development of productive sectors. The decline in tariffs will mean that unless governments carry out a fiscal reform or increase domestic taxes, which can act as an economic deterrent to growth and development, these will have to widen the tax base. Other things remaining equal, the greater is the tax base the less is the scope for tax exemptions. Thus in short, the FTAA may neutralise, in part, OECS countries use of fiscal policy as a microeconomic tool for the development of targeted products and sectors.

This potential effect jointly with the issue of initial conditions and the impact of the FTAA on intraregional trade flows and firm structure may in fact be the most important outcomes and those that need the most significant and pressing attention by OECS governments.

The main concern in the short run future and in the OECS trade negotiating strategies and the most pressing task at hand is not to find an immediate solution to the challenges described above but to create an environment where finding a solution is indeed one of the possible outcomes.

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## ANNEX

## Tables 21-44 and Figures 9 to 16

Table 21 OECS Foreign exchange flows, 2001				
Country	Grants as % of GDP	FDI as % of GDP	Services receipts as % of GDP	Unilateral transfers as % of GDP
Anguilla	2.07	29.03	29.59	0.13
Antigua and Barbuda	.....	5.70	36.28	0.88
Dominica	3.64	4.52	9.16	6.65
Grenada	4.20	12.25	15.62	5.45
St. Lucia	0.98	3.39	29.61	2.07
St. Kitts and Nevis	0.50	25.62	9.75	5.39
St. Vincent and the Grenadines	1.84	6.06	20.81	4.39
Average	2.21	12.37	21.55	3.57
Source: On the basis of official data				

Table 22  
Net financial flows  
OECS Economies (US\$ million)  
1990 – 2000

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Total net financial flows	237.2	215.3	185.9	251.4	256.4	363.1	330.9	374.3	530.4	520.7	468.7
Total net long term	234.5	214.3	183.2	203.4	274.6	354.1	310.8	374.8	443.4	558.3	461.3
Official flows	68.4	67.5	77.8	67.2	83.8	149.7	129.7	83.9	98	62.9	60.7
Grants	29.6	41.4	38.6	45.3	64.9	139.4	96.9	37.2	75.3	53.6	41.9
Loans	38.8	26.1	39.2	21.9	18.9	10.3	32.8	46.7	22.7	9.3	18.8
Private flows	166.1	146.8	105.4	136.2	190.8	204.4	181.1	290.9	345.4	495.4	400.6
Debt flows	-2	22.8	-1.2	-2.8	11.4	-5	-4	30.6	28.9	157.4	106
Commercial bank loans	-1	-1.1	-0.8	-0.4	4.7	-0.1	-0.1	16.4	7.1	80.4	56.5
Other	-1	23.9	-0.4	-2.4	6.7	-4.9	-3.9	14.2	21.8	77	49.5
Foreign direct investment	168.1	124.0	106.6	139.0	179.4	209.4	185.1	260.3	316.5	338.0	294.6
Short term debt flows	2.7	1	2.7	48	-18.2	9	20.1	-0.5	87	-37.6	7.4

Table 23  
OECS  
Foreign direct investment flows  
1990 – 2001

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Anguilla	10.7	6.3	15.5	6.6	11.1	17.7	33.2	21.0	28.0	38.0	39.1	27.3
Antigua and Barbuda	60.4	54.5	19.5	15.2	24.7	31.4	19.3	22.9	27.3	36.4	33.0	53.5
Dominica	12.8	15.2	20.5	13.1	22.5	53.9	17.7	21.0	6.5	17.9	10.8	14.1
Grenada	12.8	15.2	22.5	20.2	19.2	19.9	19.3	33.4	48.5	41.4	35.6	34.2
Montserrat	9.6	8.0	4.6	4.8	7.2	3.0	-0.3	2.5	2.5	8.2	3.4	3.5
St. Kitts and Nevis	9.6	8.0	4.6	13.7	15.3	20.4	35.1	19.6	31.8	57.5	95.9	82.6
St. Lucia	44.6	8.0	4.6	34.0	32.4	32.6	18.3	47.6	83.1	82.8	48.8	50.7
St. Vincent and the Grenadines	7.6	8.8	14.8	31.3	47.1	30.5	42.5	92.1	88.6	55.9	28.1	35.5

Source: ECLAC (2002) and on the basis of official data

Table 24  
OECS  
Foreign Direct Investment (as a percentage of GDP)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Anguilla	19.7	11.3	25.6	10.1	15.0	23.7	42.1	23.8	29.8	36.3	36.4	24.9
Antigua and Barbuda	15.5	13.3	4.6	3.3	5.0	6.4	3.6	4.0	4.4	5.6	5.0	7.8
Dominica	7.7	8.4	10.7	6.6	10.5	24.7	7.6	10.3	3.0	8.0	4.7	6.4
Grenada	5.8	6.3	9.0	8.1	7.3	7.2	6.6	10.6	13.9	11.0	8.8	8.6
Montserrat	14.3	14.4	7.9	7.8	11.3	5.0	-0.7	6.3	6.8	23.4	9.9	10.2
St. Kitts and Nevis	6.0	4.9	2.5	6.9	6.9	8.9	14.3	7.2	11.1	19.0	29.2	24.1
St. Lucia	10.8	1.8	0.9	6.9	6.3	5.9	3.2	8.3	13.3	12.4	7.1	7.7
St. Vincent and the Grenadines	3.9	4.2	6.4	13.2	19.4	11.6	15.3	31.5	28.0	16.9	8.4	10.2
Average OECS	10.5	8.1	8.5	7.9	10.2	11.7	11.5	12.7	13.8	16.6	13.7	12.5

Source: ECLAC on the basis of official data.



Table 25 FTAA specialization index of service providers by regional sub-grouping					
	Average 1980-1985	Average 1985-1990	Average 1990-1995	Average 1995-2000	Average 1980-2000
Barbados	4.83	4.96	4.55	4.48	4.70
Belize	5.07	4.96	4.42	4.45	4.72
Montserrat		4.91	4.66	4.23	4.55
Saint Lucia	3.20	3.10	3.25	4.17	3.44
Grenada	3.41	3.59	4.05	4.16	3.78
Saint Kitts and Nevis	2.57	3.49	3.88	4.11	3.48
Bahamas		1.15	3.79	3.94	2.97
Saint Vincent and the Grenadines	2.30	1.84	2.45	3.56	2.58
Antigua and Barbuda		3.61	2.68	3.15	2.94
Dominica	1.71	1.70	2.41	3.10	2.23
Jamaica	2.47	2.88	2.61	2.94	2.71
Haiti	2.22	1.90	1.34	2.73	1.98
Guyana	0.65	1.26	1.22	1.09	1.01
Trinidad and Tobago	0.64	0.80	0.82	0.84	0.78
Suriname	1.45	0.79	0.57	0.82	0.92
Average CARICOM	2.54	2.73	2.85	3.18	2.85
Average OECS	2.20	3.71	3.90	4.41	3.83
Mercosur					
Paraguay	2.11	1.96	1.81	1.99	1.98
Uruguay	1.65	1.40	1.71	1.85	1.65
Argentina	1.00	1.04	0.86	0.76	0.92
Brazil	0.48	0.45	0.53	0.59	0.51
Average Mersocur	1.31	1.21	1.23	1.30	1.26
Andean Community					
Bolivia	0.63	0.85	0.79	0.81	0.77
Colombia	1.54	1.11	0.97	0.76	1.11
Ecuador	0.76	0.90	0.80	0.66	0.79
Peru	1.09	1.13	0.90	0.96	1.03
Venezuela	0.30	0.39	0.38	0.30	0.35
Average AC	0.87	0.88	0.77	0.70	0.81
MCCA					
Costa Rica	1.23	1.37	1.44	1.06	1.28
Honduras	0.64	0.69	0.88	1.03	0.82
Nicaragua	0.55	0.59	0.92	1.36	0.87
Guatemala	0.41	0.71	1.40	1.07	0.90
Panama	4.68	4.32	3.59	3.53	4.02
El Salvador	0.98	1.71	1.60	1.50	1.43
Average MCCA	1.41	1.56	1.64	1.59	1.55
NAFTA					
United States	1.21	1.40	1.34	1.34	1.32
Canada	0.61	0.66	0.65	0.65	0.64
Mexico	0.97	0.89	0.73	0.47	0.76
Average NAFTA	0.93	0.98	0.91	0.82	0.91
Chile	1.17	0.94	0.97	0.98	1.02
Dominican Republic	2.08	3.04	3.54	3.77	3.09
Average NG	1.62	1.99	2.26	2.37	2.06

Source: UNCTAD (2002)

Table 26			
OECS's direction of exports and trade intensity indices			
2001			
Country	Destination		
Direction of exports as a percentage of the total			
	United States	Europe	CARICOM
Anguilla	29.27	2.33	11.84
Dominica	4.01	21.07	59.10
Grenada	38.77	31.81	21.60
Montserrat	15.97	23.19	50.16
St. Lucia	13.56	54.22	27.74
St. Kitts and Nevis	70.71	23.91	3.00
St. Vincent and the Grenadines	3.15	37.32	54.71
Average			
Trade intensity index			
Anguilla	1.56	0.06	0.73
Dominica	0.21	0.58	3.62
Grenada	2.07	0.87	1.32
Montserrat	0.85	0.63	3.08
St. Lucia	0.72	1.48	1.70
St. Kitts and Nevis	3.78	0.65	0.18
St. Vincent and the Grenadines	0.17	1.02	3.35
Note: The trade intensity index is defined as the share of country's i exports that are destined to partner country j divided by the share of country j in world imports. The trade intensity index (ITII) is equal to $(X_{ij}/X_i)/(M_j/M_w)$ where, X <sub>ij</sub> = imports of reference country i from partner country j. X <sub>i</sub> = total exports of reference country i. M <sub>j</sub> = total imports of reference country j. M <sub>w</sub> = world imports.			
Source: ECLAC's Caribbean Trade Data Base (Caribtrade)			

Table 27  
OECS  
Trade with the Andean Community  
Balance of Trade  
1995-2001  
US Dollars

	1995	1996	1997	1998	1999	2000	2001
Anguilla		3,000,694		1,563,356	591,792	1,864,382	2,575,601
Antigua and Barbuda					15,198,260		
Dominica	2,488,765	2,309,458	217,546	2,217,338	606,885	3,447,365	503,343
Grenada	2,880,590	4,109,983	10,787,937	114,823,335	6,082,630	21,115,859	1,003,490
Montserrat					23,448		200,989
St. Kitts and Nevis				25,982,014	8,773,356	1,883,370	24,430,993
St. Lucia	2,960,323	860,721	1,555,268	7,779,384	1,463,504	307,099	4,360,011
St. Vincent and the Grenadines	9,284,255	22,089,770	2,750,177	11,724,509	19,332,091	13,973,239	198,380,998
Total	17,613,933	32,370,626	15,310,928	164,089,936	52,071,966	42,591,314	231,455,425

Note: All these figures are negative numbers.

Table 28  
OECS  
Trade with Central America  
Balance of Trade  
1995-2001 US Dollars

	1995	1996	1997	1998	1999	2000	2001
Anguilla	1,931,413			4,556,279	174,332	1,572,842	4,579,089
Antigua and Barbuda					990,483		
Dominica	117,336	4,567,141	15,142,331	8,987,590	1,552,011	332,458	3,407,208
Grenada	842,199	20,674,136	1,927,389	3,318,882	9,465,292	86,185,519	71,091,985
Montserrat					113,066		129,036
St. Kitts and Nevis				15,972,539	117,664,268	14,263,772	155,905,382
St. Lucia	11,824,504	2,216,312	3,082,557	3,104,768	5,053,858	1,927,344	6,172,365
St. Vincent and the Grenadines	4,787,447	15,927,448	103,473,880	17,788,258	63,089,970	577,595,165	385,676,781
Total	19,502,899	43,385,037	123,626,157	53,728,316	198,103,280	681,877,100	626,961,846

Note: All these figures are negative numbers.

Table 29  
Trade with the United States  
Balance of Trade  
1995-2001  
US Dollars

	1995	1996	1997	1998	1999	2000	2001
Anguilla		15,483,684		263,478	42,047,905	31,172,180	3,797,559
Antigua and Barbuda					154,997,515		
Dominica	2,382,990	2,300,336	2,885,234	9,974,421	7,253,149	6,813,183	53,031,476
Grenada	2,307,434	10,506,989	3,266,035	146,325,359	6,303,397	227,749,950	107,577,812
Montserrat					1,302,876		625,659
St. Kitts and Nevis				151,585,805	59,090,014	35,095,598	106,412,675
St. Lucia	17,571,514	42,170,400	21,127,080	3,720,293	327,136	17,824,865	12,027,690
St. Vincent and the Grenadines	190,810,788	187,584,137	16,837,129	29,596,197	125,358,974	158,271,948	1,644,914,672
Total	213,072,726	258,045,546	44,115,478	341,465,553	396,680,966	476,927,724	1,928,387,543

Note: All these figures are negative numbers.

Table 30  
Trade with Canada  
Balance of Trade  
1995-2001  
US dollars

	1995	1996	1997	1998	1999	2000	2001
Anguilla		38,250,526		12,123,294	1,732,177	1,199,020	32,296,793
Antigua and Barbuda					9,155,959		
Dominica	14,549,204	7,552,332	488,141	632,455	13,808,602	9,033,173	4,454,097
Grenada	1,451,966	15,838,386	28,730,057	3,311,538	5,315,083	4,417,032	22,377,050
Montserrat					5,798,694		4,838,708
St. Kitts and Nevis				75,630,153	99,466,919	31,650,168	25,726,821
St. Lucia	59,320,199	50,786,524	6,569,979	7,010,635	16,300,462	1,118,474	3,172,205
St. Vincent and the Grenadines	297,128,028	196,999	124,218,746	40,230,608	237,425,831	21,861,282	27,398,645
Total	372,449,397	61,838,243	153,436,944	138,938,683	389,003,727	69,279,149	120,264,319

Note: All these figures are negative numbers.

[illegible][illegible]

Table 33  
Real effective exchange rates for Caribbean countries  
1980 - 2000

	Antigua and Barbuda	Dominica	Grenada	St. Kitts and Nevis	St. Lucia	St. Vincent and the Grenadine s	Barbados	Belize	Guyana	Jamaica	Trinidad and Tobago
1980	104.2	90.9	91.7	109.8	101.7	101	65.9	96.9	192.3	76.4	170.3
1981	109.1	98.2	106.1	113.4	111.69	106.8	69.3	105.5	208.0	73.9	180.6
1982	110.6	101.5	112.6	116.4	114.5	110.6	69.4	111.7	235.6	70.9	191.8
1983	111.6	108	118.7	117.7	116.3	114.6	58.3	117.7	276.3	69.8	199.1
1984	115.5	116.9	126.6	120	121.8	116.4	57.4	122.3	281.9	114.1	211.7
1985	114	120.2	126.7	119.5	120.3	115.3	56.8	129.8	291.2	127.2	215.2
1986	106.4	111.5	118	115.4	113.1	113.4	67.7	116.1	276.2	105.9	141.7
1987	102.1	107.2	106.1	108.3	110.9	108.2	86.6	107.7	142.2	102.1	122.3
1988	101.6	100.8	103.1	101.3	103.9	101.6	93.4	106.4	179.2	98.1	110.4
1989	102.6	105	107.7	103.6	105.8	102.5	80.8	104.9	141.6	94.3	102.5
1990	100	100	100	100	100	100	100.0	100.0	100.0	100.0	100.0
1991	101.8	101.7	99.2	99.6	102.2	102.2	95.2	100.1	86.2	118.7	100.9
1992	100.4	102.6	98.3	98.3	102.9	100.7	111.1	98.8	95.5	120.6	101.7
1993	106.6	105.6	103.8	101.1	106.9	107.7	89.6	106.6	104.6	111.9	85.7
1994	106.8	101.8	103.7	99.9	106.3	104.8	94.3	102.3	104.4	109.0	75.0
1995	103.5	95.9	100.2	97.7	105.1	99.7	96.7	92.4	104.6	100.3	72.7
1996	105.1	97.2	101.4	98.4	105.6	103.9	90.4	97.3	113.0	84.6	74.1
1997	109	102.6	104.2	107	108.1	107.6	93.3	100.3	119.0	74.1	74.4
1998	111.2	107.6	105.3	109.9	111.1	111.4	89.5	100.0	119.8	68.5	78.0
1999	113.6	106.6	105.8	112.7	116.7	110.9	82.0	97.6	108.6	70.0	80.1
2000	.....	.....	.....	.....	.....	.....	70.7	99.0	114.4	75.4	83.9

Source: IMF financial statistics and on the basis of official data.

Table 34  
GDP growth in Latin America and the OECS  
1985-2002

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	Mean	Standard Deviation
Latin America Weighted Average GDP	3.4	3.9	3.1	1.1	1.3	0.3	4.0	3.4	3.5	5.1	1.2	3.5	5.4	2.3	0.8	4.0	0.5	-0.3	2.6	1.71
Simple Average GDP	1.5	3.2	3.2	0.9	1.0	1.3	3.9	3.9	3.7	3.9	3.5	3.2	4.9	3.1	0.9	3.0	1.2	-0.2	2.6	1.42
Median	1.8	3.4	3.7	1.5	2.8	2.5	2.8	4.9	4.2	4.4	4.5	2.9	4.8	3.9	0.9	2.6	1.5	1.6	3.0	1.26
OECS	6.8	9.9	6.3	9.2	5.8	4.7	0.7	3.9	2.55	3	0.66	2.67	3.24	3.99	4.09	2.41	-1.49	-0.3	3.8	3.03

Table 35 OECS Tariff indicators and other duties 2001				
	Tariff lines	Average tariff	Minimum-Maximum Standard deviation	Other duties/taxes
Antigua and Barbuda	4 077	14.5	0-70 16.1	Customs service tax (5%) Foreign exchange transactions tax (1%) Consumption tax (0%, 15%, 20% and 30%)
Dominica	6 333	13.1	0-200 21.6	Customs service charge (2%) Import surcharge (15%) Consumption tax (25%) Environmental surcharge of 0.25EC\$ per container applied on imports of alcoholic and non-alcoholic beverages.
Grenada	6 334	11.2	0-40 10.8	Customs service charge of 5% General consumption tax (differential rates) Petrol tax Environmental levy on water and beverages in plastic and glass bottle at the rate of EC\$0.50 and EC\$ 0.25. The environmental levy is also applied on other goods at a rate of 1% to 2%.
Montserrat				A customs surcharge of 8% applies to all imports Special produce import tax is levied on wine, beer and rum
St. Kitts and Nevis	6330	11.5	0-70 9.5	Customs service charge of 5% Bottle deposit levy of EC\$ 0.30 per bottle
St. Lucia	6 368	10.1	0-70 8.41	General consumption tax Excise tax Customs service charge (4%) Environmental levy (1.5% and 1%)
St. Vincent and the Grenadines	6 237	10.9	0-40 12.11	Customs service charge (4%) Consumption tax Deposit Levy charged on all imported aerated beverages (EC\$ 0.50 per bottle/can)
Regional Average	6330	11.88	13.28	
<p>Note: In the case of Barbados the surtax applies to some products. Antigua and Barbuda applies exemptions from import duties to milk, poultry, and basic foods and agricultural products. In Belize, the 12% sales tax applies to alcohol, tobacco and fuel. Dominica's import surcharge applies apples, fresh grapes and pears and motorcycles. Belize applies the revenue replacement duty on good that are of CARICOM and non-CARICOM origin. In Guyana garments locally manufactured do not are not subject to the consumption tax.</p> <p>Source: WTO (2001 and 2002)</p>				



Table 36 OECS Tariff average and standard deviation Agriculture mining and manufacturing 2001			
	Agriculture	Mining	Manufacturing
Antigua and Barbuda	19.6 0.9 CV	7.5 1.7 CV	14.5 0.9 CV
Dominica	22.8 24.3	6.9 8.8	12.5 21.3
Grenada	21.0 0.9 CV	7.6 1.1CV	10.5 0.8 CV
St. Kitts and Nevis			
St. Lucia	20.6 0.9 CV	5.5 1.5 CV	9.4 1.2 CV
St. Vincent and the Grenadines	24.6 0.7 CV	6.9 0.8 CV	10.1 0.9 CV
Regional Average			
Source: WTO (2001 and 2002)			

Table 37  
Non-tariff measures applied by OECS Member States  
2002

	Rules of origin	Prohibitions	Restrictions	Licensing	Quotas	Contingency and countervailing measures	Price controls and marketing boards
Antigua and Barbuda	75% of the market for alcoholic beverages is reserved for local producers of aerated beverages and brewery products			Non-automatic licenses for arrange of products	Quotas on alcoholic beverages		Central marketing board imports carrots, cabbage, onions, sweet peppers and tomatoes.
Dominica				Non-automatic licenses are applied on candles and aerated beverages, plastic or rubber footwear from MDCs CARICOM			The Dominica Export Import Agency is the sole importer of rice and brown sugar in bulk and in packages larger than 10 lbs.
Grenada				Non-automatic licenses are required for a range of imported products from the MDC's of CARICOM			The Grenada marketing board is the sole importer of bulk sugar, rice and powdered milk.
Montserrat				Non-automatic licenses are imposed on selected CARICOM MDC.	Seasonal quotas are imposed on imports of white potatoes, onions and cabbage.		
St. Kitts and Nevis				Automatic and non-automatic licenses are imposed on a range of products from CARICOM			The supply office in the ministry of trade is the only importer of wheat flour and rice in bulk and



Table 38  
Export Share to the OECS by OECS member state  
1995 - 2001

	1995	1996	1997	1998	1999	2000	2001
Anguilla		25.67%		19.79%	7.85%	1.69%	9.30%
Antigua and Barbuda					39.78		
Dominica	63.01%	16.38%	63.72%	57.49%	20.97%	22.43%	26.73%
Grenada	11.32%	32.33%	6.40%	33.12%	4.74%	3.39%	23.71
Montserrat					49.77		10.58
St. Lucia	27.79%	15.63%	9.24%	45.95%	11.03%	11.26%	28.42%
St. Kitts and Nevis				2.00%	18.92%	5.99%	2.96%
St. Vincent and the Grenadines	34.56%	2.35%	63.77%	16.20%	50.59%	27.19%	17.76%

Source: UNECLAC (2001). Caribtrade Data Base.

Table 39  
Import Share to the OECS by OECS member state  
1995 -2001

	1995	1996	1997	1998	1999	2000	2001
Anguilla		5.28%		4.83%	1.18%	2.55%	14.53%
Antigua and Barbuda					3.57		
Dominica	16.46%	15.73%	13.75%	7.02%	5.18%	10.66%	14.10%
Grenada	4.36%	7.25%	4.23%	1.21%	0.34%	6.39%	1.56%
Montserrat					9.74%		4.78%
St. Lucia	0.88%	14.54%	5.55%	0.99%	0.75%	3.40%	1.90%
St. Kitts and Nevis				15.52%	4.95%	7.26%	4.85%
St. Vincent and the Grenadines	4.66%	7.74%	1.27%	7.46%	0.95%	2.06%	7.08%

Source: UNECLAC (2001). Caribtrade Data Base.

Table 40  
Intra-regional trade flow matrix for OECS member states  
2001  
US\$

	Anguilla	Antigua and Barbuda	Dominica	Grenada	Montserrat	St. Lucia	St. Kitts and Nevis	St. Vincent and the Grenadines
Anguilla	.....	400,795	608,012	790	1,022,566	11,343	693,467	2,391
Dominica	9,392,863	2,120,885	.....	113,436	565,258	1,678,108	1,383,490	6,186,411
Grenada	.....	1,808,774	116,308	.....	6,632	697,620	537,458	2,515,198
Montserrat	33,639	1,785,209	57,118	.....	.....	1,206	354,363	57,994
St. Lucia	66,024	1,867,855	2,749,625	1,136,096	1,748,721	.....	679,085	2,835,486
St. Kitts and Nevis	1,631,995	5,365,003	499,801	29,145	2,069,520	5,972,250	.....	77,249
St. Vincent and the Grenadines	1,260,188	5,276,645	480,120	34,363,728	7,464	6,024,421	13,466,652	.....

Source: UNECLAC (2001).. Caribtrade data base.

Table 41 OECS export structure to Other developing America (includes the Dominican Republic, Panama and Mexico) 1985 - 2000				
	1985	1995	1990	2000
736 Machine-tools for working metals;			0	41.832
531 Synthetic organic dyestuffs, etc., natural indigo, colour lakeset;			0.223	7.399
611 Leather;			2.794	6.131
515 Organo-inorganic and heterocyclic compounds;			1.351	5.665
122 Tobacco, manufactured;			0.009	3.507
641 Paper and paperboard;			0	3.276
845 Outer garments, other articles, knitted/crocheted;			0.166	3.01
774 Electric apparatus for medical purposes;			0	2.839
699 Manufactures of base metal, n.e.s.;			0.26	2.466
761 Television receivers;			0.035	2.463
075 Spices;			0.117	2.434
842 Outer garments, men's and boys' of textile fabrics;	0.054	3.053	1.741	2.218
759 Parts, n.e.s., of and accessories for 751 and 752;			0.473	1.887
874 Measuring, checking, analyzing, control instruments;			0.805	1.616
695 Tools for use in the hands or in machines;			0.382	1.384
843 Outer garments, women's, and girls' of textile fab.;	0.82	1.018	0.342	1.352
752 Automatic data processing machines, units thereof;			0.614	1.196
642 Paper and paperboard, cut to size or shape, articles of;	0	2.311	0.074	0.976
931 Special transactions and commodities not class.;			0.008	0.971
663 Mineral manufactures, n.e.s.;	0	1.132	0.006	0.929
846 Under garments, knitted or crocheted;	0.228	0.44	0.089	0.844
844 Under garments, textile fab. (not knitted/crocheted);			0.056	0.735
658 Made-up articles, wholly or chiefly of textile mat.;			0.383	0.684
776 Thermionic valves and tubes, and other semiconductors, n.e.s.;			0	0.417
728 Other machinery and equipment, specialized;	0.172	0.976	1.722	0.394
682 Copper;			0	0.388
872 Medical instruments and appliances, n.e.s.;			0	0.316
895 Office and stationary supplies, n.e.s.;			0.022	0.295
851 Footwear;			0	0.259
749 Non-electric parts and accessories of machinery;			0.194	0.247
Source: CAN (2002)				

Table 42 OECS export structure to Mercosur 1985 - 2000				
	1985	1995	1990	2000
075 Spices;	87.184	3.804	65.648	75.439
874 Measuring, checking, analyzing, control instruments;			0	12.05
713 Internal combustion piston engines and parts;	0	0	0	3.941
512 Alcohols, phenols, phenol-alcohols and their derivatives;	0	0.236	0	3.573
531 Synthetic organic dyestuffs, etc., natural indigo, colour lakeset;			0	1.531
514 Nitrogen-function compounds;			0.141	0.767
554 Soap, cleansing and polishing preparations;			0	0.657
899 Other miscellaneous manufactured articles;			0	0.455
773 Equipment for distributing electricity;			0	0.377
551 Essential oils, perfume and flavour materials;	0	0.03	0	0.365
772 Elec. apparatus for making and breaking elect. circuits;			0	0.2
784 Parts and accessories, n.e.s. of the motor vehicles;			0.007	0.2
598 Miscellaneous chemical products, n.e.s.;			0	0.188
034 Fish, fresh (live or dead), chilled, dried or frozen;			0	0.118
749 Non-electric parts and accessories of machinery;			4.44	0.077
642 Paper and paperboard, cut to size or shape, articles of;			0	0.055
741 Heating and cooling equipment and parts;			0	0.004
843 Outer garments, women's, and girls' of textile fab.;			0.13	0.004
Source: CAN (2002)				

Table 43 Central American Market Table 41 OECS export structure to Central America 2000	
	2000
582 Condensation, polycondensation and polyaddition prod.;	33.062
121 Tobacco, unmanufactured; tobacco refuse;	32.586
728 Other machinery and equipment, specialized;	11.587
677 Iron or steel wire (excl. wire rod) not insulated;	3.254
269 Old clothing and other old textile articles; rags;	2.775
583 Polymerization and copolymerization products;	2.561
951 Armoured fighting vehicles, war arms, ammunition;	2.436
725 Paper mill and pulp mill machinery, etc.;	1.943
523 Other inorganic chemicals; org. and inorg. compounds;	1.532
642 Paper and paperboard, cut to size or shape, articles of;	0.913
034 Fish, fresh (live or dead), chilled, dried or frozen;	0.844
741 Heating and cooling equipment and parts;	0.826
699 Manufactures of base metal, n.e.s.;	0.681
048 Cereal preparations and preparations of flour, starch;	0.521
694 Nails, screws, nuts, bolts, rivets, etc.;	0.512
657 Special textile fabrics and related products;	0.431
653 Fabrics, woven, of man-made fibers;	0.401
695 Tools for use in the hands or in machines;	0.373
786 Trailers and other vehicles, not motorized, n.e.s.;	0.291
651 Textile yarn;	0.29
592 Starches, inulin and wheat gluten, etc.;	0.289
591 Disinfectants, insecticides, fungicides, etc.;	0.279
541 Medicinal and pharmaceutical products;	0.222
781 Passenger motor cars (excl. public service type);	0.166
821 Furniture and parts thereof;	0.137
893 Articles, n.e.s., of materials of division 58;	0.134
062 Sugar confectionery (except chocolate), other sugar prep.;	0.12
693 Wire products (excl. insulated electrical wiring), fencing grills;	0.1
743 Pumps (excl. pumps for liquids), compressors, fans;	0.09
684 Aluminum;	0.086
Source: CAN (2002)	



Table 44 OECS export structure to the Andean Community 1985-2000				
P0009 oece	1985	1995	1990	2000
515 Organo-inorganic and heterocyclic compounds;			0.267	15.898
749 Non-electric parts and accessories of machinery;			1.333	13.43
112 Alcoholic beverages;			0.705	9.41
075 Spices;	0	0.325	0.767	7.584
251 Pulp and waste paper;	17.925	3.007	2.748	4.295
553 Perfumery, cosmetic and toilet preparations;			0	3.49
658 Made-up articles, wholly or chiefly of textile mat.;			1.93	3.477
533 Pigments, paints, varnishes and related materials;			0.129	2.682
741 Heating and cooling equipment and parts;	0.012	0.233	1.324	2.495
781 Passenger motor cars (excl. public service type);	3.418	0.706	1.308	2.392
024 Cheese and curd;			0.323	2.242
531 Synthetic organic dyestuffs, etc., natural indigo, colour lakeset;			0.012	2.084
625 Rubber tyres, tyre cases, tubes, treads, etc.;			0.037	1.739
674 Universals, plates and sheets, of iron or steel;			0.453	1.655
653 Fabrics, woven, of man-made fibers;			0.242	1.585
872 Medical instruments and appliances, n.e.s.;			0.045	1.527
022 Milk and cream;			0.78	1.522
267 Other man-made fibers suitable for spinning;			0	1.468
678 Tubes, pipes and fittings, of iron or steel;			0.214	1.361
847 Clothing accessories, of textile fabrics, n.e.s.;			0.044	1.317
821 Furniture and parts thereof;			0.015	1.3
541 Medicinal and pharmaceutical products;			0.718	1.245
785 Motorcycles, motor scooters and other cycles;			0.095	1.151
073 Chocolate, other food preparations containing cocoa, n.e.s.;			0	0.976
663 Mineral manufactures, n.e.s.;			0.007	0.932
634 Veneers, plywood, reconstituted wood, etc.;			0	0.81
554 Soap, cleansing and polishing preparations;			0.02	0.728
892 Printed matter;			0.115	0.711
695 Tools for use in the hands or in machines;			1.068	0.652
745 Other non-electrical machinery, tools, etc.;	0	0.523	0.331	0.559
Source: CAN (2002)				