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TRADE POLICY ANALYSIS FOR CARICOM COUNTRIES

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PREFACE

This is a unique book that focuses on much-neglected CARICOM countries in the context of multilateral trading system, i.e., WTO. We discuss about the evolution of trade policies during the global financial crisis along with several changes happening in the globalizing world, as well as the political economy of agricultural and other subsidies in the first three chapters in general, with some references to CARICOM countries.

Subsequently, in chapters 4, 5 and 6, we focus on CARICOM countries specifically, shedding light on various agricultural trade policies in specific commodities and sectors. Our broad conclusion is that a lot of attention needs to be paid to these countries given their own unique importance in terms of geopolitical strategic location and the masses living in poverty with limited access to resources in otherwise resource rich economies.

Author is grateful to Dr Dillon Bernard for his contributions and Dr Dale Dan for her comments on an earlier draft.

Dr Badri Narayanan Gopalakrishnan
September 2023

CHAPTER 1

Trade Policy Commitments and Contingency Measures

Marc Bacchetta, K. Michael Finger, Marion Jansen, Alexander Keck, Coleman Nee, Roberta Piermartini, Michele Ruta, and Robert Teh discuss about the changes in trade policy during the Global Financial Crisis in their report by WTO (2009). A financial crisis that took root in 2008 and developed to proportions that it severely weakened the world's economic stability, began around the middle of 2007. This crisis began with declines in the values of mortgage-backed securities. It intensified following the collapse of the Wall Street Investment Bank Lehman Brothers in 2008, and government led rescues of a number of financial institutions, in the United States and in other developed nations. Some of the effects of this financial crisis included a disruption in the normal functioning of the banking system which deprived firms and individuals of much needed credit, falls in stock markets and housing prices that led to reduced wealth in the United States and other developed nations, fall in prices of oil and gas, reductions in world output as measured by real Gross Domestic Product (GDP) that started first in developed countries and spread to developing countries, and most notably reductions in world trade flows.

Experience has taught that in times of economic hardships and crises, nations have a tendency to embrace restrictive trade policies. Experience has also taught that while a protectionist response to the pains of economic contraction is a seemingly attractive short-term solution, in the medium to long term it may serve as a catalyst for deepening and prolonging economic crises. In light of these realities the authors sought to address the 2008 global economic crisis frontally by providing prescriptive analyses of the response measures available to World Trade Organization (WTO) members in the import and export of goods and services. The response measures examined in this report include contingency measures namely safeguard measures, anti-dumping, and countervailing duties. In addition, the report examined a number of mechanisms of flexibility available to WTO members namely the renegotiation of tariff commitments, export taxes, and increases in taxes up to the maximum ceiling that each WTO member has negotiated – known as tariff bindings. It is the authors conviction that a discussion of these important trade policy commitments and contingency measures is a fundamental necessity in providing governments with tools to help them manage circumstances of disruption that may arise when least expected.

Contingency measures are considered essential in trade agreements because they allow trading partners to make long term commitments, while at the same time preserving each nation's ability to adapt to changing economic circumstances. Contingency measures are also viewed as an escape mechanism which governments use to respond to unforeseen economic challenges. Contingency measures can take various forms as they provide governments with a variety of options to either rework or completely overhaul a previous commitment. The scope of contingency measures is so broad and varied that they sometimes provoke retaliatory responses from trading partners. Trade agreements define the rules for the conduct of trade and outline boundaries. It is important therefore that trade agreements strike a balance between commitment and flexibility. Too much flexibility can undermine the value of commitments, while too little flexibility can make the rules politically unattractive. During trade negotiations therefore it is this delicate balance between credible commitments and flexibility that negotiating partners struggle to achieve. Many of the flexibilities brokered during trade negotiations are classified as 'escape clauses'. There is an economically fundamental reason for working escape clauses into trade agreements and that is to provide governments with viable options for use in cases of unforeseen economic occurrences.

It is precisely the incorporation of those contingency measures and other flexible commitments that the authors of this book sought to analyze. In their analysis they carefully discussed circumstances under which contingency measures can be appropriately used, and circumstances under which they should not. Firstly, the authors were very careful to indicate that there is an economic justification for the use of contingency measures. This justification is based on the fact that at the time of signing a trade agreement, there are usually no indicators that accurately point trading partners to the likelihood of future economic events. This therefore means that the inclusion of flexibilities into such agreements will allow for deeper commitments to trade liberalization, will contribute to the future stability of any trade regime, and will help reduce domestic opposition (political, and socioeconomic) to the signing of trade agreements. While the economic justifications for the inclusion of flexibilities into trade agreements are pertinent, the authors are very careful to point out that inherent in those flexibilities are loopholes, that when exploited, can themselves render the flexibility weak, inappropriate, and even the root cause of inefficiencies. The authors particularly mention the following:

Trade agreements allow agreeing parties to co-operate with each other through low trade barriers. Inherent in this is that the flexibility itself may undermine what the agreement was intended to achieve. "In the words of Ethier,[1] 2002, contingency measures constitute unilateral behavior in the multilateral trading system. The use of such unilateral measures is costly as it may reduce international trade flows and diminish the efficiency gains from more open trade."

Rigid government commitments have the effect of increasing the credibility of trade policy while reducing the likelihood of inefficient policies. The incorporation of flexibilities into such rigid government commitments have the effect of relaxing the inherent rigidity. This by extension can harm governments' credibility and reduce national and global welfare. An example of this occurs when governments harbor inhibitions and are not fully committed to free trade. The incorporation of flexibilities serves to provide a loophole that governments can use to not co-operate. This creates distrust within the economy and firms tend to allocate resources in an inefficient manner in the anticipation that government will utilize the contingent measure and adjust their behavior. This inefficient allocation of resources represents a welfare loss, which is really the cost in terms of credibility of introducing trade policy flexibility into a trade agreement.

It is in recognition of the justifications for the use of contingency measures, as well as the acceptance that inherent in those measures are loopholes that can be exploited, that allow for transparent discussions on the benefits and costs that accompany the use of contingency measures. The main propositions that emerge from economic literature with respect to benefits associated with the use of contingency measures are:

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[1] Trade Policy Commitments and Contingency Measures (World Trade Organization, 2009).

Flexibilities often serve as a safety mechanism and as such releases the pressure governments may feel to completely give up on previously negotiated trade liberalization agreements in the face of economic uncertainty and instability.

Contingency measures are oftentimes used as an insurance mechanism, thereby allowing governments to preserve income stability.

Trade remedies are allowed to represent an adjustment policy tool which reduces variations in the costs to the domestic economy when it is subject to external economic and political shocks, and even catastrophic natural disasters.

Contingency measures are oftentimes used as a form of compensation that allows signatories to accept a more rapid pace of trade liberalization.

The very existence of contingency measures in trading systems allows for an internal self-correcting mechanism that can discipline the policy behavior of trading partners, and, thereby protect the integrity of the remainder of the agreement.

In conclusion therefore, we concur with the following observation made by Sykes, 1989. "Horn and Mavroidis, 2003, and Fischer and Prusa, 2003,"[2] all note "contingency measures are a second-best solution to market failures when the optimal, first best policy is unavailable due to constraints faced by governments." Being sub-optimal therefore it is recommended that first best policies be employed, when possible, to address all sources of distortions within an economy.

The science of the use of contingency measures and other flexible commitments in trade agreements is multi-disciplinary. At its core there are always economic, political, and legal considerations that are necessary. As it becomes more involved, other disciplines such as the environmental, cultural, and socioeconomic add color to trade discussions and negotiations. This dynamic clearly renders trade negotiations an inexact science, one in which flexibility may be preferred to rigidity, for the simple reason that predicting future events is itself an inexact science. Globalization has also added the dynamic of making our world much more interdependent than it was one hundred years ago. It is no secret in our present world that events in one part of the world often have long lasting effects (both positive and negative) on other parts of the world. Those events can be economic (as in the financial sector crisis of the last decade), political (as in the many cases of serious political unrest across the Arab world in the last decade), or natural (as with the recent upsurge in the potency of tsunamis, earthquakes, cyclones, and hurricanes worldwide).

The greatest impact on me from reading the book therefore is the point made consistently throughout, that in times of dynamism and great uncertainty, economic first best policies may not always be those that respond the best. As is succinctly stated in the book, "Export restrictions like tariffs, are in general not a first best policy in market based neoclassical analysis. But in some circumstances their use may be justified as a second-best policy and they may be preferred to import restrictions."[3]

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[2] Ibid., 27

[3] Ibid., xx

CHAPTER 2

Trade in a Globalizing World

Patrick Low, Marc Bacchetta, Chad Brown, K. Michael Finger, Marion Jansen, Alexander Keck, Roberta Piermartini, Michele Ruta, and Robert the authored the World Trade Report (2008), which is discussed in this chapter. The last four decades of the twentieth century witnessed movements in our world that led to nations choosing greater dependence upon each other as the fuel to power their economic pursuits. This interdependence became known in economic literature as globalization, a complex phenomenon, yet one that has become central to the manner in which business is conducted in our world today. In this book it is the authors' intent to investigate the role of trade in an increasingly globalizing world. To achieve their intent the authors strategically divided the book into six sections, and used each section to explore different facets of trade, and its impact on economies. In each section key questions drive the exploration, analyses, and discussions. It is in opening up the discussion, providing answers to the questions posed, and suggesting solutions to contingent problems, that the authors satisfy their curiosities and fulfill their intent. The issues addressed in the six sections are as follows:

Section A: - General introductory comments with clear explanations of the concepts 'trade' and 'globalization'.

Section B: - Analyzes the key elements of the global integration process. The key issues addressed are; 'What constitutes globalization?' 'What drives globalization?' 'What are the benefits of globalization?' and 'What are the challenges of globalization?'

Section C: - A re-examination of the gains from trade. The key issues addressed are; 'What role does trade play in a world of consistently growing interdependence?' and 'Who are the direct winners and losers from trade in society?

Section D: - An examination of countries participation in international trade. The key issue addressed is; 'Why have some countries managed to take advantage of falling trade costs and greater policy driven trading opportunities while others have remained largely outside international commercial relations?'

Section E: - An examination of the distributional consequences of trade liberalization and the resistance to further trade openings that this may create. The key issues are; 'What are the appropriate policy instruments to use in specific national and international interactions?' 'What complimentary policy actions need to be taken in order to secure the benefits of trade for society at large?' and 'How does trade impact poverty and the most vulnerable groups in society?'

Section F: - An examination of the challenges arising from more open trade. Here the focus is on developing countries and their role in the WTO. The key issues are; 'What are the supply constraints faced by developing nations?' 'How do developing countries manage the social consequences of trade liberalization?' and 'What is the relationship between trade and technological progress?'

Finally, in solidifying their intent the authors are clear to indicate that trade is just but one aspect of globalization, and that there are broader political, economic, and technological forces that shape our globalized landscape and add to the complexity of the phenomenon.

Trade and globalization have yielded many benefits to countries and to their citizens. To this end the book addressed lots of issues relevant to the benefits of trade. Accompanying the many benefits however are contingent weakness or failures, to this end the book also addressed many issues relevant to the weaknesses of trade and globalization. In light of the discussed weaknesses, and also in light of the fact that when subjected to benefit/costs analyses, most economists agree that the benefits of trade outweigh the costs, then there are challenges faced as a result of trade and globalization that must be addressed if the product is to be one that continuously increases benefits while reducing costs. The book also discussed the most urgent challenges that must be continuously addressed in the future for there to be greater parity and fairness.

The major benefits of trade addressed in the book are those gained through specialization and more efficient economies of scale. Those benefits include increased productivity on the world level, the wider spread of knowledge and new technologies, and the increased range of choices made available to consumers worldwide with their accompanying price benefits. All of this has resulted in the increased prosperity of peoples generally, both at the individual and the collective levels, and also to the greater stability of nations. The major weakness or failure discussed is the fact that the benefits of trade and globalization have not been evenly distributed at best. This is evidenced in the disparities of involvement between nations across the world (developed versus developing, rich versus poor), as well as the same disparity even within and across a single economy. In the process of the analysis, many critics question the ability of certain groups and even certain economies to become immersed into global trade and as such participate in the benefits discussed. The major challenge discussed occur at the level of individual countries and their respective governments. It seems to be universally agreed that with global trade spreading as rapidly as it is, the main challenge is for governments to manage the process in such a way that the focus be on spreading the successes of prosperity more widely. It is in the discussed benefits, weaknesses, and challenges that the core content of the book is contained.

Understanding the dynamic complexities of trade and trade liberalization has proven to be extremely challenging for researchers. While some factors such as resource endowment, and comparative advantage are pretty easily determined to be key contributors to the proliferation and growth of trade, other factors are not as clear cut. Some of the greatest concerns are as follows:

The impact of trade on growth has always been cause for concern to economists, particularly the impact on financial and economic growth. Researchers have over the years worked long and hard at trying to establish causality between trade and growth, however the results are still inconclusive.

The fact that despite many of the accepted trade theories do adequately explain real world trade dynamics, yet many existing trade relationships are not readily validated by trade theories. This remain a work in progress as improvements continue to be made in empirical testing methodologies.

The fact that many firms engaged in the production process are geographically spread as well as fragmented. This gives rise to the phenomenon of intra firm trade, as the different components, of say an electronic firm, are each produced in different locations that are often times spread thousands of miles apart. Intra firm trade is very difficult to monitor, and for many firms engaged in this practice, detailed information on production and trade at the firm level is frequently unavailable.

The inequalities created by trade liberalization. This is a serious concern of politicians, business persons, economists, and the public at large in developing countries. Researchers continue to explore the relationship between trade and inequality in developing countries. Most trade theory seem to indicate that trade should lead to a reduction of inequality in countries, by reducing poverty through its positive effects on growth and on income distribution. However, empirical studies reveal that the actual is estranged from the theoretical in developing countries, and that income distribution in those countries is more a function of political actions, through policies, rather than the direct result of gains from trade.

Yet another critical concern with particularly disturbing trends in developing countries is the fact that despite the many touted achievements of the DOHA round, and the involvement of the WTO, enough substantial evidence of gains in developing countries which filter down to the poorest of the poor are not realized.

A final concern relates to the reallocation of resources. One of the social consequences of trade is that there be a reallocation of resources from their former uses to activities where they are more productive. Trade has the function of providing goods and services to nations which those nations are not efficient at producing. With those goods provided through trade, there is reduced need for them to be produced locally. Resources formerly used in their production become idle, and as such available for use in alternative sectors of the economy. While such reallocation is necessary so that the benefits of trade reform can be realized, they also lead to job losses and other securities losses for some individuals in society. In many countries policies are in place to assist persons temporarily out of employment due to such disruptions, the concern is that in most developing countries such safety net measures are not in place to assist persons affected in such a manner.

The authors took great effort throughout the book to ensure that the core content is understood in light of those concerns mentioned and discussed. It is realized that only through such an integrated approach to understanding the content that responses to the challenges can be properly planned and executed.

The authors clearly states that the fuel used to power the engine which drives global integration is technological innovations, political changes, and economic policies. It is important to note that those pronouncements are substantiated by research work done mostly in developed countries, and large or more progressive developing countries of the world.

Developing small states such as those in the Caribbean and the wider CARICOM region are basically spectators, and at best, feeble participants, in the fast-paced game of global trade, integration, and transformation. There are opportunities for trade economists to make meaningful contributions to the future economic development in the region. We take note of the fact that the only developing countries in our part of the world that are discussed in this and many other reports are Brazil and Colombia. Those countries, although categorized as developing, can hardly be considered equals with Caribbean and CARICOM developing small states. Using their experiences on the global market place to assume transferability will be a mistake, with many resultant negative consequences. First of all, it must be recognized that the size of both Brazil and Columbia (land mass and resource endowment), allow them to achieve far greater economies of scale than can be assumed in the small developing states of the Caribbean. Second, political change in the Caribbean and wider CARICOM region is so slow that it serves as an impediment to those countries being able to exploit opportunities which become available in a liberalized, globalized world. If Cuba is included in the analysis, then the process of political change could be described as having stagnated for the greater part of fifty years, a period when the pace of global trade increased rapidly. Thirdly, although signing off on Regional Trade Agreements in the CARICOM region over the better part of the last fifty years, individual CARICOM small states were unable to resist many of the attractive offers that came their way through the Caribbean Basin Initiative (CBI), the PL 480 program, both out of the United States, and more recently the cheap fuel offered by Venezuela through the PETROCARIBE program, just to mention a few.

In closing therefore, we are convinced that the small developing states in the Caribbean are unable to truly benefit from the gains of trade that larger, more technologically advanced developing countries can access. As feeble spectators of this global process, they are even unable to retaliate when the rules are manipulated to put them in positions of disadvantage, since retaliation will hurt more than help. It is our hope to be able to ventilate the issues so that our policy makers in the Caribbean will be in better informed decision-making positions.

CHAPTER 3

Trade Policy and Subsidies in the WTO Negotiations

Patrick Low, Marc Bacchetta, Bijit Bora, K. Michael Finger, Marion Jansen, Alexander Keck, Clarisse Morgan, Roberta Piermartini, Robert Teh, Aishah Colautti, and Souda Tandara discuss a number of important issues that impact global trade, in the WTO (2006)[4]. The major issue discussed is the use of subsidies, however the authors also discuss the effects of natural disasters and acts of terrorism on global trade. The intent of the authors is to present a discussion that is not only relevant to policy makers, but also one that can be comfortably engaged by large cross section of persons in society, such as, scholars and students, managers in industry, and the general public at large. Although the book is written to allow easy understanding of the complex issues impacting world trade, it is also the intent of the authors to stimulate deeper reflection on the issues discussed. From an economic standpoint, the use of subsidies is the policy instrument that exerts the greatest impact on global trade. In their analysis the authors clearly set out to discuss the issue of subsidies, paying particular attention to how they are defined, and the use of economic theory as a useful means for understanding their use. The authors also explore and discuss the reasons why governments use subsidies, as well as the most popular sectors in the economy that attract subsidies. Finally, since the use of subsidies is globally impacting, it is necessary for there to be rules to regulate their use. The authors therefore discuss the role of the World Trade Organization (WTO) in regulating subsidy use in relation to international trade.

Every country has its own interpretation of the subsidy, its use, and which sectors within its economy needs help. This dynamic creates a situation in which the concept ‘subsidy’ is widely varied in definition and understanding. What is consistent is the fact that governments continue to apply subsidies where they deem necessary, because international trade takes place in an environment of multiple market imperfections. Analysis of subsidies therefore involves an analysis of the market climate within which they operate. To this extent economic analysis using the principles that form the foundation of an understanding of perfect markets and how they operate, is very instructive in the analysis of subsidies and their use. The analysis of subsidies forms the core content of the book, and in their analysis the authors first list the major reasons put forward by governments for use of subsidies, then they use economic analysis to first justify the use of the subsidy, and then to determine the most efficient means to achieve stated objectives. In the book therefore the authors not only analyze subsidy use but they also conduct an analysis of alternative policy instruments which can be used in each given situation, with the intention to identify the most efficient and effective instrument to be used in each situation.

It is important to mention from the outset that a major weakness of the analysis, by the authors’ own admission, is the lack of reliable information on subsidies. The reasons for this lack are as varied as the number of countries worldwide that use subsidies, and even with the WTO acting as an organization of rules with responsibility for collecting data on subsidies, compliance by governments in meeting the demands of the WTO is inconsistent at its very best. As stated in the authors’ own words, “it is simply impossible to make good

[4] Exploring the links between subsidies, trade, and the WTO (World Trade Report 2006)

policy or to forge mutually beneficial international co-operation in the absence of information."[5]. In light of this the writer proceeds to highlight five important danger signals that evolve out of the application of subsidy use across the world. Two of these are relevant to the application as executed in developed countries, and three are the result of the practice in developing countries. The writer also seeks to explain consequences for development, particularly the development of small states in the CARICOM and wider Caribbean region.

The Developed Country Scenario

In developed countries social expenditures make up a significant portion of government spending and of Gross Domestic Product (GDP). In 2001 for instance, OECD countries spent 21.2 percent of their GDP on social programs. Social programs in this context include those implemented to assist old age survivors, incapacity related benefits, health, unemployment, active labor market programs, regional policies, housing, water, and access to telecommunication services. Entangled in this social program net are subsidies to agriculture, with the given reason that they are necessary to support farm income, and also to helping stabilize declining industries based on income distribution and redistribution. Economic analysis however informs that an unequal distribution of income is not representative of a market failure. The application of economic analysis therefore to justify governments use of subsidies to alter the distribution of income is therefore of limited usefulness. What economic analysis do indicate is that there are a number of other policy alternatives which can be used to achieve the objectives of income distribution and support for fragile rural communities. Those policy instruments include restrictions on market access, and the imposition of domestic content requirements.

The challenge with this disguise of subsidies to the agricultural sector as a meaningful social expenditure is that it produces agricultural enterprises in developed countries that are overly competitive. While being overly competitive, many of the industries are not cost effective and operate on an inefficient scale. The overriding effect of this extended practice of subsidization is that there are now serious problems within OECD countries with respect to the fulfillment of budgetary demands. In terms of development, developing countries stagnate and even shut down their agricultural industries because they can purchase food from developing countries at competitive prices, thereby satisfying the nutrient demands of their peoples. This creates a dependency syndrome and a vicious prolonged condition of underdevelopment. This type of underdevelopment has plagued CARICOM countries for an extended period from about the last three decades of the twentieth century, and continuing into the twenty-first century. The net result of this type of underdevelopment is underutilization of resources, stagnant undiversified economies, lack of productive growth opportunities for citizens, high rates of outward migration, and general poverty.

Subsidies to industries are often given on the condition that they help to protect national security, cultural heritage and diversity, and some other non-trade concerns. This argument is particularly used by developed OECD countries. The challenge here is that national security, cultural heritage and diversity, and the non-trade concerns referred to are public policy objectives which are impossible to analyze based on economic parameters only.

[5] Exploring the Links between Subsidies, Trade, and the Wto (World Trade Organization, 2006).

Sectors in which national security considerations feature prominently include food production and energy production. The actual required level of security is therefore a political consideration that extend beyond the boundaries of economic analysis. The non-trade concerns given greatest attention at the WTO are related to agriculture and the wide range of commodity production. The WTO's argument is that outside of the food and fiber produced from agricultural practices, added production benefits include the landscaping, biodiversity, cultural heritage values, rural employment, food security, and animal welfare which accrue. The arguments for added protections to those industries is therefore very strong.

While the arguments for continued subsidization of the agricultural sector in developed countries remain very strong, the challenges they pose remain pervasive. It must be once again emphasized that subsidized agriculture in the developed world produces agricultural industries that are overly competitive, but in most cases operate inefficiently. This produces conditions of serious budgetary constraints in those developed countries. The spillover challenges in developing countries are those of stagnant agricultural industries, with a creation of the dependency syndrome with its contingent issues of prolonged underdevelopment. The net result being undiversified economies, shortages in productive growth opportunities, high rates of outward migration, and systemic poverty.

The Developing Country Scenario

Government officials of developing countries often cite the need to continually encourage the expansion of new, profitable investment opportunities while working on the WTO's requirements of imposing the necessary disciplines to curtail and eventually cut off unproductive activities. Economic analysis however suggests that trade protection is not an efficient way of promoting the growth and development of new industries. Economic analysis clearly indicates that while the use of subsidies, government loans, and guarantees do yield benefits, particularly at the microeconomic level, there are serious costs that accompany their use. Those costs can oftentimes outweigh the benefits identified. Developing countries in their desire to promote the development of local industries often overlook the high costs associated with incurring expenditures on support to those industries. Many such mistakes have been made in CARICOM countries in this regard. Those countries often get caught up in support to industries that are seen as necessary to development during particular periods of time. An example of this is during the twentieth century, sugar producing CARICOM countries, namely Guyana, Jamaica, and St. Kitts, provided supports to their sugar industries that were overly demanding on their economies from a cost perspective. In most cases, particularly after the loss of guaranteed preferential markets in Europe for Caribbean cane sugar, the sugar industry still continued to receive their customary supports despite they were incurring annual loses. This type of economic malpractice was continued for years since it made political sense to policy makers, because of the number of families the sugar industry supported through jobs, both direct and indirect. The new wave of dominant economic activity in the CARICOM region is now in services, mainly tourism, and some of the same mistakes made with the sugar industry in the twentieth century are being made with the tourism sector in the twenty-first century.

A critical problem in developing countries is that the use of subsidies usually implies greater roles for government, as they become involved in management and monitoring activities in addition to policy formulation. Due to the inefficiencies involved when governments take the responsibility of being the enforcers of policy, many economists do believe that the role of government should be minimized in this regard. In developing countries of the CARICOM region there is the added challenge of salaries being too low for government workers. This makes those workers very vulnerable to the offer of bribes when they serve as policy enforcers on behalf of government. This type of malpractice has particularly affected performance of our quarantine services, food quality inspection services, and agricultural outreach or extension services across the CARICOM region.

With respect to subsidy use it is generally advised that governments should not engage in activities that are of a competitive nature. These include activities such as production, and research and development. Experience has shown that the more governments become involved in those activities, the more subsidy funds are mismanaged due to complacency, entitlement expectations, and other associated inefficiencies. This eventually results in consumer prices that are higher than they should be, as none of the subsidized industries produce at an efficient level.

The observations of the authors that internationally there is a paucity of information on subsidy use, and that there is a general lack of compliance with WTO’s request that information on subsidy use be submitted to their data base, suggests an even more serious problem for third world countries such as those in CARICOM, than might appear to be the case from surface examination. While most developed countries are very discriminating with their data, choosing what and what not to reveal, the situation in developing countries is quite different. In most CARICOM countries, data collection systems are very weak, and record keeping is a discipline that is hardly enforced and practiced. This results in a situation in which data from these countries are generally unreliable. In addition to the need for monitoring and evaluation systems in CARICOM countries, there is also a need for training in specific disciplines such as record keeping, data collection and analysis, and the legal procedures with respect to international trade. These realities indicate that there is a lot of work to be done for Caribbean countries to become comparable to developed countries in the area of information systems. However, it is my belief that an attempt should be made as the longer these remain in a state of stagnancy, the greater becomes the gap between developed and developing countries, and the further developing small states shift toward underdevelopment. Once it can be determined to be politically and economically prudent to develop information systems with respect to international trade, and the requisite resources can be committed to get the system moving, then this is an area in which we can definitely make a contribution to the enhancement and development of the region.

CHAPTER 4

Impact of Global Economic Integration on CARICOM Countries

Since International Economic Integration involves the participation of all economies of the world in processes that impact the individual lives of their peoples, as well as the economic well-being of the nation, and even regions, international economic integration can be spoken of as a form of economic globalization with both positive and negative impacts. Positive impacts include technological innovation and advancement, increased investments in countries and regions where local capital for investment is scarce. Negative impacts include economic vulnerability mainly due to size, resource endowment, or geographic locale, financial collapse through collapse of banking sectors, housing and job markets decline, and general economic recession. Given the fluidity of the integration process it is fair to engage in a discussion of benefits and costs of international economic integration.

International Economic Integration with its justifications for sustainability founded in international trade has benefits and costs that create great divisions of perspectives at all levels. In spite of its general divisiveness however, economists generally remain firmly convinced that the benefits of trade outweigh the costs. Based on this they generally propose an open policy to the world economy as one superior to a policy in which a country's economy is shut out of the world economy. In support of their propositions, economists are quick to remind that the benefits of trade include increased innovation, competitive pressures to raise levels of productivity, and access to new technologies. Even further substantiating their arguments, is that on the consumer side, trade provides a greater variety of goods and offers them at comparatively lower prices.

Finally, in the analysis of international economic integration, there is a point to be made on the role of international economic institutions such as the World Trade Organization (WTO) and The General Agreement on Trade and Tariffs (GATT). People rely on institutions to create order and to reduce uncertainty. International Economic Institutions are therefore relied upon for those same services. The provision of order and the reduction of uncertainty are so important that when absent, economies cannot grow. It is important to note that the provision of order and the reduction of uncertainty are services that everyone values, and even though they are intangibles, they are valued in the same way as more tangible material goods.

Two very pertinent points of concern to persons living in developing small states like those of the Caribbean and CARICOM region are raised by Gerber (2014). Those points are:

"In general, large countries are less dependent on international trade because their firms reach an optimal production size without having to sell to foreign markets. Consequently, smaller countries tend to have higher ratios of trade –to-GDP."[1]

"The GATT intentionally ignored the extremely contentious sectors of agriculture, textiles, and apparel. In addition, trade in services was ignored because they were not considered to be very important. The accumulation of unresolved issues in those sectors, however, along

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[1] James Gerber, International Economics, Sixth Edition. ed. (Boston: Pearson, 2014).

with the increased importance of nontariff trade barriers, led to the demand for a new, more extensive set of negotiations."[2]

These are points of concern because point 1 indicates that if small countries do not respond positively to the competitive pressures placed on them to produce at competitive rates thereby putting themselves in position to satisfy the demands of their peoples, they will always be subject to the economic pressures applied by large countries. One way in which small countries can respond positively, benefit from positive economies of scale, and develop economically vibrant and fluid productive sectors is through capitalizing on the benefits to be gained through the formation and working of Regional Trade Agreements (RTA's). This however demands a level of political maturity, as well as political will to succeed. In the former British colonies of the Caribbean, one such RTA, by the name of CARICOM has been formed, and has actually been in existence for more than twenty-five years. However, because political will and maturity remain a challenge, there is more fight than unite, as people of the region continue to suffer at the hands of immature, incompetent leadership.

Point 2 is indicative of a very callous attitude of one of the world's leader organizations with respect to international trade, through their failure to address two industries that are critical to the survival of citizens of the CARICOM region, namely agriculture and services. This attitude must change if people of the CARICOM region are to buy into the argument that they are participating in a global trade environment that is fair and offers equal opportunities.

It is important to understand the role of economic diversification in relation to the dependence of nations on international trade. While it was established that diversification do play an important role, there are many reasons outside the control of individual countries which limit their potentials with respect to diversification of their economies. We raise two important dynamics that continue to figure prominently in the abilities of countries to participate in the international economy. One important characteristic was that of resourcefulness. Here in using Japan as an example, the fact was mentioned that although Japan has always been a country of comparatively limited resource endowments, yet they have always maintained a place of prominence in international trade participation.

The generally accepted basis for the economic analysis of international trade is the economic concept of comparative advantage. This concept was widely researched by two prominent economists, Adam Smith and David Ricardo, who both believed that although each country has its own technology, its own climate, and its own resources, yet there are differences among nations that would give rise to productivity differences. These they identified as the differences in factors of production used in the production of each good. From their perspective therefore, trade, and the gains from trade are made possible because of the direct workings of comparative advantage.

Dominating economic thought on the subject of development before the arrival of Adam Smith and his work, was the mercantilists belief in the system of nationalistic economics. This form of economic thought stressed exports over imports as the way of promoting economic

[2] Ibid., 23

development. Smith, however, lived and experienced a different set of realities, and based on his experiences he challenged the mercantilists' view. Smith's propositions were based on his observations of the realities of production in relation to market size. He analyzed production specialization, and concluded that with increased market share, from access to foreign markets, a country can specialize its production and benefit from trade. Smith argued that contrary to the mercantilists view, if countries were unwilling to import, then they would be limited by the size of their national markets. Smith therefore proposed imports as a means of enabling a country to obtain goods it could not produce, or could not produce efficiently. Smith through his work was the first to offer overt criticisms of the imposition of trade barriers, which he concluded was what mercantilism promoted.

Another important aspect of the economic analysis of international trade is the competitive advantage to be gained through its practice. While comparative advantage results from productivity differences between nations, the analysis of comparative advantage fails to take into consideration wages paid to labor, prices of inputs and products, and exchange rate dynamics. In the real world of market economics however these factors operate, and any assumptions on their importance fails to give careful considerations to their relative scarcities. Such assumptions therefore make it difficult to identify the differences between a nation's comparative advantage, and the ability of firms to sell goods at prices that are competitive. Such assumptions therefore do not accurately account for the realities and impact of market imperfections.

Lots of the theoretical analysis does not accurately account for realities in the real world. This point was clearly made in the analysis section above. Under more realistic assumptions however, it can be shown that while trade benefits nations as a whole, some groups within the nation benefit more than others, and some will actually be harmed. Furthermore, it can be shown that there is a systematic relationship between the factor endowments of a country and the winners and losers from trade. It is in opening up the discussion to an analysis of winners and losers that an important necessary element of realism is added.

From the information provided in the readings this week the most important applications and integrations of international trade are the shift from foreign trade to foreign investments, the modern preference of major players in international trade for offshoring and outsourcing, the effects of the global practice of migration on international trade, the consistently changing impact of trade on jobs and wages, and the embrace of consistent change on the economic playfield, cleverly named economic restructuring. As noted in the text, trade creates change, and it is often difficult for some people, industries, or communities to deal with that change. As nations shift their production mixes, and move along their production possibility frontiers, there is a necessary period of transition which is painful for some. The effects of change do not take place overnight, despite change is a desirable component of improved standards of living. The process of change therefore costs time and money. It is this particular phenomenon known as change which allows developed countries and large developing countries to dominate the international trade arena, while leaving developing small states like those in the CARICOM region to be mere spectators in a game that they lack the requisite resources to participate.

We now move on to discuss about trade barriers, financial crises, the general Agreement on Trade in Services (GATS), and trade policy. The discussion on trade barriers was basically introductory and more preparatory work for a more detailed immersion that is to come later in the course. The discussion on financial crises was a direct result of issues raised during Week 2, particularly in relation to the analysis of trade as it concerned gains of trade, and winners and losers from trade. During the discussion on financial crises, the practice of currency manipulation surfaced. It was mentioned that the economic best practice is for the value of international currencies to be determined by market forces, however for a variety of reasons, some to provide distinct advantages at different periods during the production cycle, governments manipulate their currencies to their advantage. We now turn to a study of the role and purpose of the GATS, and the extensive readings on trade policy which focused on commitments and contingency measures.

The callous attitude of the GATT towards agriculture, textiles, apparel, and services was not appreciated by many members of the WTO, and consistent agitation for change was chorused during each round of the GATT from as far back as 1947 when this aloof and counter co-operative attitude first surfaced. Finally, in January 1995, almost fifty years after the incorporation of the GATT, the GATS was agreed upon and signed into force. This significant development occurred during the Uruguay Round of trade negotiations, which lasted from 1986 to 1993. The GATS gained the distinction of being the first multilateral trade agreement that addressed trade in services. All members of the WTO are signatories to the GATS, and are therefore bound by the included obligations. It is therefore contingent upon all trade officials in those countries, to be familiar with the GATS agreement, regardless of their country's policy persuasions.

The language used in the GATS agreement is very encouraging to developing countries, and blows some welcome fresh air through their nostrils of aspirations for improved relationships and overall betterment. One example of the use of language alluded to is:

"The GATS is intended to contribute to trade expansion under conditions of transparency and progressive liberalization as a means of promoting the economic growth of all trading partners and the development of developing countries."[3]

This type of language allows for trade expansion to be viewed as not simply an end to which only a few aspire because of the benefits that await, but rather as an instrument that can be used to promote growth and development. This type of link with development encourages greater participation of developing countries, particularly those heavily reliant on services as their main driver towards economic growth and development. It also takes into consideration the special financial needs of the least developed countries of our world, and how those needs are impacted by trade.

Finally, the analysis of trade policy, another issue engaged this week, pointed to the reality that in times of economic hardships, most nations, even high income developed nations,

[3] The General Agreement on Trade in Services an Introduction (World Trade Organization, 2013).

yield to the temptations of embracing more restrictive trade policies. The analysis however actually shows that this can be quite a foolhardy approach. As was clearly mentioned, while employment of greater restrictive policy measures can be quite an attractive short-term response, in the medium to long term it may serve as a catalyst for deepening and prolonging economic crises.

This change in approach by the WTO and the monumental achievements of the Uruguay Round, has been most welcome by many small developing members of the WTO, and particularly appreciated by developing small states in the CARICOM region. The need for a trade agreement in services have long been sought after by countries who lived this felt need on a daily basis. Those countries continually distanced themselves from the WTO rhetoric and traditional thinking that services, be it large hotels and restaurants, transport and telecommunications, health, education, or insurance, are basically domestic activities that do not lend themselves to the application of trade policy concepts and instruments. The service industry worldwide has grown and evolved to the extent that it now occupies the place of being the most dynamic segment of international trade. International data show that since 1980, world services trade has grown faster than merchandise trade, with developing countries being very visible participants in the process.

With respect to trade policy the greatest challenges lie in the fact that world trade continues to and will continue to take place in an environment of consistently evolving and changing features, one in which the dominant dynamic is uncertainty, be it economic, political, social, legal, and even natural. Developing small states, with comparatively limited resources, natural, intellectual, and systemic, must embrace change as an implanted constant, and learn to manage change processes so that their peoples can more greatly benefit from opportunities that are presented in the global marketplace.

The weaknesses of the comparative advantage model, which have rendered the performance results of the comparative advantage model mixed at best in terms of global trade. The result is that quite a large number of the major players in international trade today do not operate on the basis of the principles of comparative advantage. Rather, in practice, much of the producers of products that dominate world trade, export the same products they import, and many engage in the practice of clustering. Clustering involves the production of many traded goods and services in specific regional clusters. Both the practice of clustering, and that of exporting the same products imported, promote intra-industry and inter-industry trade. The problem with the comparative advantage model and hence the preference for the intra-industry and inter-industry trade models is that the comparative advantage model ignores rare and exceptional cases, as its intention is to create a simplified abstract model of an economy that focuses on key economic relations in the area of trade. However, rare and exceptional cases assume greater importance over time and it is this fact that allow for the relevance and success of the intra-industry and inter-industry trade models.

Incorporation and increased use of models of increasing economies of scale in international trade is also the result of inherent weaknesses of the comparative advantage model. In the comparative advantage model production costs are assumed to be either constant or increasing. In the real world however, the production of most goods is characterized by economies of scale or decreasing costs. These realities render the comparative advantage model useless, and allows for the application of new models of international trade based on economies of scale. Internal economies of scale, defined as falling average costs over a relatively large range of output, leads to the development of larger firms, because size yields a competitive advantage in the form of lower average costs. One distinguishing feature of intra-industry trade is the presence of internal economies of scale. Internal economies of scale also have important implications for the type of market that prevail. The comparative advantage model based on free market economics assume that firms operate in competitive environments where no single firm can influence prices or overall industry output. When larger firms are more competitive, however, it reduces the number of firms in the market and as such leads to one of several types of market structures, namely, oligopoly, and monopolistic competition.

Finally, the analysis of industrial policies reveal that they are government policies designed to create new industries or to support existing ones. Industrial policies are very controversial, so much so, that recent international agreements limit the scope of actions which countries can take to support their industries. It has been realized that because industrial policies are oftentimes politically motivated, they end up wasting large amounts of resources.

A practical application of economies of scale is that for different reasons it is not always the best choice to have all manufactured goods produced close to their markets. The common situation therefore is that in most cases, products are manufactured some distance away from their markets, and the final product is shipped to where it is sold. This reality makes transportation costs a significant factor, this point is important because not all tradable goods have the same transportation costs, and services tend to have very few transportation costs, and in some cases none at all. However, for manufactured products that do, shipping the final product to market allows for important considerations. First, if there were no internal economies of scale, it would be possible to locate production next to the market where the product will be sold. However, the realities of scale economies, makes that impractical for most products. Transportation costs and scale economics are characteristics of manufacturing that help explain several patterns observed in global trade. For example, most foreign direct investment in the world today is directed towards high income countries, and not toward developing countries, this is largely because high income countries have larger markets.

Trade protections which is the major hindrance to free trade, and which is seen by many economists as an important cause of underdevelopment, is a topic of significant importance to world trade. The policy instruments used by most governments to protect industries and jobs are tariffs and quotas. Those instruments together comprise what is called commercial policies in economic literature. While protecting industries and jobs, tariffs and quotas also serve as barriers to free trade, from that perspective therefore they are seen as expensive and inefficient. With respect to their use, quotas place direct limits on imports while tariffs directly tax imports, and in the process indirectly limits them. With respect to effect, the imposition of tariffs and quotas forces consumers to switch to relatively cheaper domestic goods, or to withdraw completely from participation in the market. Tariffs and quotas also encourage domestic producers to increase their output as demand switches from foreign goods to domestic goods. The main difference between tariffs and quotas is that if quotas are not supported by additional policy actions, then they do not generate tariff revenues for the government. That lost tariff revenue can go to foreign producers who raise their prices in an attempt to move supply and demand towards equilibrium. The net loss from quotas can therefore exceed that from tariffs.

Application/Integration

Despite the use of tariffs and quotas are proven to be expensive and inefficient, yet they are used excessively by developing small states. This immediately places those countries in a position of disadvantage, and is one of the readily identifiable reasons why these countries do not access the gains to be had from uncomplicated participation in free trade. Two ways developing small states are particularly hurt when they employ commercial policies is in the negative consequences that result due to retaliation from trading partners, and the negative impact on domestic innovation and productivity. Retaliation from trading partners serves to hurt the export markets of other industries in the country imposing the quota or tariff, in this way it adds to the net loss of a tariff. An additional problem is that retaliation can quickly escalate and become a major problem. There are many examples of this throughout the history of world trade. Another costly effect of tariffs is that they isolate domestic firms from foreign competition and in the process reduces the incentive to introduce new products, or to upgrade the quality features of existing products. These two factors have really hurt developing small states over time.

Global trade is shaped by the fact that humans operate within a globalized world that is becoming even more globalized every day. The analysis of globalization and trade as individual features of modern economies, as well as the analysis of globalized trade as an integrated process, has consumed the working time of international trade analysts. Globalization, and globalized trade have great benefits for countries and their citizens. The analysis however reveals that in spite of the many benefits, there are also a lot of failures and weaknesses associated with global trade. What economists do agree however is that the benefits do outweigh the failures and this is substantiated when the processes and their products are subjected to benefit/cost analysis. In light of those revelations, it is agreed that the failures or weaknesses must be addressed as mere challenges that must be overcome if countries are to continually harvest the benefits that are possible.

The major benefits are those gained through specialization and more efficient economies of scale. Those benefits result in increased productivities on the world level, the wider spread of new knowledge and technologies, and the increased range of choices available to consumers worldwide with their associated price benefits. The net effect has been increased prosperity of people worldwide, and increased stability of nations. Quite opposed to those handsome benefits are the challenges, the most significant one being that the benefits of trade and globalization have not been evenly distributed in the best of circumstances. During analytical engagement many critics question whether the possibilities actually exist, as presently structured, for certain groups and even certain economies to become immersed into global trade and as such reap the benefits mentioned earlier. In light of those challenges however, it is still the view of many economists that the challenge is for individual governments to manage the processes in such a way that the emphases be placed on spreading the successes of prosperity more widely.

Globalization and trade are such pervasive phenomena that they impact almost every sphere of daily economic activity. This holds true whether one lives the realities of developed countries, developing countries, or underdeveloped countries. Living successfully in this constantly evolving globalized world therefore require progressive understanding of the dynamic complexities of trade and trade liberalization. This is not a necessarily easy challenge, for while some factors such as resource endowment and comparative advantage are fairly easy to understand, yet other realities associated with trade and globalization are difficult to understand and explain. Some of these realities include the impact of trade on growth, the inequalities created by trade liberalization, the fact that many of the widely touted gains hardly filter down to developing small states, and to the poorest of the poor irrespective of economy in which they are found. The job losses and other social disruptions created as a result of increased trade liberalization, the fact that many existing trade relationships are not readily validated by trade theories, the geographical spread and fragmentation of many of the dominant firms engaged in production for world trade all complicate our comprehension of global trade.

The analysis of trade protection policies show that tariffs and other barriers are usually implemented for a specific purpose, such as to protect jobs, or to protect local industries. Given this condition therefore there is usually opportunity costs associated with all protectionist measures. Analyzing protectionist policies therefore must begin with an analysis of the reasons for their use.

Historically, the global trend has been for imposed tariffs to be higher in agriculture than in any other sector of the economy. The reasons for this is that most countries are concerned about developing a local capacity for food production, thereby ensuring some measure of food security, and also to transfer income to farmers in support of a policy to take care of rural citizens. The two most crippling costs of trade protections are the inefficiencies associated with the process, and the fact that when trading partners retaliate this can lead to a total shutdown of trade altogether, an action that hurts both trading partners more than it helps. The nature and wide-ranging impacts of those costs therefore make it necessary that countries give careful thought to any trade restriction policy being considered, and also to the particular circumstances that makes it necessary for the implementation of trade restriction policies.

The critical point to note about the use of trade restriction measures is that irrespective of the reason(s) for their use, they tend to be very expensive. This means that for developing countries, although their use may appear attractive, the associated costs are way above what those countries can afford. There is the added reality that quite a lot of economic activities which take place in developing countries, also make the costs even greater.

CHAPTER 5

Agricultural Trade Policies in the CARICOM Countries

Agriculture has made significant contributions to the development of CARICOM small states from the time of political independence and onwards. This contribution was made possible because these small states received lots of supports from their former colonial rulers, and other developed countries. Lots of this support has been through policies that supported the provision of access to guaranteed markets in those developed countries. Those supports lasted for decades and the production industries in CARICOM countries in addition to being an earner of needed foreign exchange, also formed the foundation that supported the livelihoods of many families in the region. The changing dynamic of globalized trade with its emphases on competitiveness and efficiency has demanded changes in the way CARICOM small states structure their economies and organize their economic relationships. To this end our book seeks to highlight and assess the impact of agricultural trade reforms in developed OECD countries on developing small states of the CARICOM region.

We develop a better understanding of agricultural trade liberalization and trade reforms on the international stage and how they impact practices in the CARICOM small states. Of major concern will be the impact on all dimensions of food security, access to the gains from trade, utilization of tradable products, and the economic stability which results from participation.

From an economic standpoint the analysis reveals that the use of subsidies is the policy instrument which exerts the greatest impact on global trade. Every country uses subsidies, and every country applies subsidies based on their understanding and interpretation. Every country also determines which sector(s) within their economy needs help. What the foregoing statements do indicate is that practices of subsidy application and reasons for their application are not globally standardized. What is consistent however is the fact that governments continue to apply subsidies where they consider necessary, the major reason being because international trade takes place in an environment of market imperfections. Analysis of subsidies therefore by necessity incorporates an analysis of the market climate within which they operate. Another important consideration when analyzing subsidy use is the analytic consideration of alternative policy instruments which can be used, so as to determine which of the policy instruments would be the most efficient and effective in any given situation.

One very pertinent observation emerging out of the analysis of subsidies is that with respect to excellence of practice, and the preparation required to get the most possible out of any process, there is a large void between developed and developing countries. This is clearly one of the major reasons for subsidy data being unreliable at the global level. While developed countries are very discriminating with their national data, the situation in developing countries is that their database is limited due to weaknesses in data collection.

Traditionally, CARICOM small states and countries within the wider Caribbean region have always been involved in domestic agricultural production to a level at which they have in most cases been able to meet national demand, as well as have surpluses that can be made available for export. Agricultural production in these countries have been the natural result of a region blessed with favorable climate (temperature and rainfall) which supports agricultural activities, the plantation culture that developed in almost all of these countries as a result of their colonial past, infrastructure institutionalized by colonial powers to support the established plantations, and virtually guaranteed markets in developed OECD countries, which was a logical extension of the investments in infrastructure, mad by the colonial rulers.

The move to trade liberalization, with emphases on competitiveness rooted in efficiency and efficacy. Growth in world trade accompanied by the establishment of the multilateral trading organization, and changing demand patterns among consumers in developed countries, changed the realities for CARICOM small states and the agriculturally based economies of the wider Caribbean. This changing dynamic necessitated changed approaches, and as such economic activity in the region was forced to evolve in an environment dominated by great uncertainties. The region has evolved in many ways and have managed to survive in light of all the challenges faced, expected and unexpected. The most significant changes started taking effect in the mid 1940's with the coming into being of the World Trade Organization (WTO), and the demands they placed on countries (developed and developing) to change the manner in which they conducted trade and to alter policies. The Caribbean was caught in this environment of change, and though, at the time, unprepared for the changes, as well as unprepared to adequately adopt to the changes, the region had to develop strategies to survive. It is this period of change and its effects on CARICOM small states and countries of the wider Caribbean region that this course project seeks to analyze. Specifically, the objectives of this course project are threefold, as follows:

To highlight and assess the direct impact of trade liberalization on the economic relationship between developed countries and small developing states of the CARICOM region, particularly in relation to trade in agricultural products.

To highlight and access the impact of agricultural trade reforms in developed OECD countries on developing small states of the CARICOM region and the wider Caribbean region.

To highlight and access the direct impact of trade policy instruments used in the developing small states of the CARICOM and wider Caribbean region, in light of its traditional relationship with their former colonial rulers.

Throughout this project paper the need for the use of agricultural trade policy analysis by trade negotiators, policy makers and planners, and professionals in both the public and private sectors, for analyzing agricultural trade policy and its potential effects on agricultural trade, rural development, and food security in the CARICOM and wider Caribbean region is emphasized.

Trade, Food Security, and Rural Development in the Caribbean

The accepted definition of food security has changed considerably over the last three decades of the twentieth century. The first definition proposed in the 1970's emphasized the volume and stability of food supplies as the main factors that define the concept. In the 1980's however, two additional factors were added, namely, access, of all peoples at all times, and sufficient food, for an active and healthy lifestyle. In 2001 however, the definition of food security was refined and stated as:

"Food security is a situation that exists when all people, at all times, have physical, social, and economic access to sufficient, safe and nutritious food that meets their dietary needs and food preferences for an active and healthy lifestyle."[4]

This change in perspective with respect to the definition of the concept food security serves as a good example to understanding the changing global environment that has dominated and continues to dominate our world.

Trade on the other hand is an internationally accepted system of economic engagement which sees two or more countries come together and decide on terms of engagement that will allow citizens of each country to benefit in a number of ways from those engagements. World trade has grown significantly in size and importance over the last seventy years that it necessitated an international body to monitor and give leadership to its conduct. With respect to the Caribbean, trade, food security, and rural development is inextricably linked. Trade and food security are tied together through a variety of linkages connected through the imports and exports of Caribbean economies. First, export oriented economic activity has always been an important foreign exchange earner as well as a source of employment and hence income earning opportunities for many families of the Caribbean. While the foreign exchange and income earning, capabilities are linked to the supply and accessibility aspects of food security, a second important contribution is that imports are equally important to the nutritional and stability aspects of food security, simply because most CARICOM countries are net importers of food. Additionally, much of the production that takes place in the region for national, regional, and international trade is dependent on the import of inputs, thereby underlying important linkages between imports exports, and food security.

With respect to rural development, trade, trade policy and its relations to rural development is widely accepted by professionals involved in promoting economic growth, food security, and rural development within the Caribbean region. These professionals point to at least four reasons to support their position. First and most fundamental is that within the CARICOM and wider Caribbean region the greatest percentage of agricultural activity is conducted in rural communities. Second is the global mandate and established commitment to achieve the Millennium Development Goals (MDG's), particularly the first MDG, whose stated goal is to eradicate extreme poverty and hunger. Third is the argument that trade is the engine for economic growth globally, and trade expansion is the surest way to promote development and reduce poverty. This argument is however widely controversial as it leaves room for different interpretations as to what trade policy or policies should be pursued under different conditions to achieve objectives that promote increased economic development. The fourth and final reason is the great urgency at the multilateral level to broaden liberalized global trade. Organizations and agencies leading that movement include the WTO, the African, Caribbean, and Pacific Economic Partnership Negotiations with the European Union (ACP/EPN/EU), together with a large number of Regional Trade Agreements (RTA's) in existence and under negotiation.

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[4] Agricultural Trade Policy and Food Security in the Caribbean - Structural Issues, Multilateral Negotiations and Competiveness (Food and Agricultural Organization of the United Nations, 2007).

Caribbean Countries as small and vulnerable economies

The WTO group countries into three categories, namely developed, developing, and least developed. Each group has its special characteristics by which it is identified, with developing countries sharing the common characteristics of being less industrial and more rural. Within the group of developing countries there is a subgroup referred to as small and vulnerable economies (SVE's). What is interesting to the writer is that even though this group of countries with special needs is recognized, the WTO does not extend to this special group of countries any special treatments fitting their status. The special characteristics shared by all SVE's that are not shared by other countries within the developing country grouping are their physical characteristics (mainly physical area and population), and susceptibility (mainly to climatic and economic shocks). Those special characteristics mentioned makes these countries particularly vulnerable and presents challenges that are difficult to overcome when referencing their abilities to participate fully in global processes such as trade.

It is important to note that within the Caribbean group there are countries with different levels of economic development and competitiveness, however, while characteristics may vary even within a group, it is the combination and intensity of several shared characteristics that allow them to be accepted as being particularly vulnerable. Those special characteristics that allow for Caribbean economies to be classified as small and vulnerable will therefore now be highlighted.

Physical vulnerability

Peculiarities of the Caribbean include fragile ecologies and the frequency of natural disasters such as hurricanes and floods. Hurricanes are a particular force not just because of the damage they cause, but mainly because of the fact that they hit the Caribbean region on a yearly basis.

Small population

Characteristic of the Caribbean region is very small land masses in conjunction with very low population densities. This problem of small land masses is compounded with very limited resource bases, particularly with respect to arable land. Most land in the Caribbean is ecologically fragile, and located on slopes of varying degrees of steepness which makes them readily susceptible to soil erosion. Limited land serves as a constraining factor to increased agricultural production, thereby constraining domestic supply.

Open economies

Due to their limited range of resources and the small size of their domestic markets, Caribbean countries rely heavily on external trade to satisfy their basic necessities of domestic demand. Caribbean countries are therefore fully involved with respect to economic integration, as such their economies are fully open to facilitate that involvement.

High dependence on food imports, particularly cereals

Imports make up a significantly large proportion of agricultural trade in Caribbean countries. The lack of diversity in production makes it necessary for Caribbean countries to rely on imports for inputs to their local production processes, as well as to increase the range of products (numbers and variety) made available to their domestic markets.

Limited export commodity range

The agricultural sectors in almost all Caribbean countries produce a limited range of products. In most countries the emphasis is on the production of approximately one to three crop products, with almost two-thirds of all agricultural exports that leave the Caribbean being in the categories sugar, alcohol, tobacco, and fruit (primarily bananas).

Export market concentration

The few commodities exported from the Caribbean are sent to a limited number of markets, with the EU and United States markets accounting for almost two-thirds of the agricultural exports from the Caribbean region.

The dominance of small, fragmented and highly imperfect markets.

The small population sizes of individual Caribbean countries mean that domestic markets are small. In addition, markets are spread across individual countries in an attempt to meet consumers close to their places of residence and business. Market imperfections are plentiful and express themselves in the form of few suppliers of inputs, few market agents, and very weak communication and transportation linkages between producers and market, particularly in agricultural markets.

High transport and transit costs

A general trend in world trade is that small developing economies spend more on transportation and freight costs as a percentage of exports than do large countries. Conducted studies indicate that small economies pay an average of ten percent of the value of merchandise exports as freight costs, while OECD countries pay four percent and Latin American countries pay seven and a half percent (Bernal 2001). With respect to Caribbean countries there are three main factors that lead to high transportation costs, these are the relatively small size of volume of exports due to the lack of production capacity, small and limited dock and cargo handling facilities, and physical distance from the major importing markets.

The importance of revenue earned from tariffs

Tariffs on imports is an important source of revenue for the Caribbean agricultural sector as well as entire economies of the Caribbean.

Lack of competitiveness

The ability to be competitive is seriously constrained by the many factors mentioned so far. Chief among them are the small size and small populations which serves to limit labor inputs to the production process. The high costs of production compounded by high transportation costs for shipping the final product forces Caribbean countries to seek markets that are either close in geographical proximity, such as the United States, or those which offer preferential treatment through quotas and fixed prices, such as the EU.

Entrenched adjustment flexibility

A group of countries blessed with limited resources, stuck in the mire of uncompetitive undiversified economies, and grappling with production sectors that lack modernity and diversity, will inevitably find it difficult to adjust to sudden changes in the global trading environment, particularly changes in trade policies which lead to shrinkage in the country's main productive and export sectors.

The characteristics discussed which make Caribbean nations particularly vulnerable serves as precursors for even more problems for Caribbean countries, and have serious implications for their international trading engagements. Some of the trade related problems associated with smallness and vulnerability will now be discussed.

Yearly hurricanes and the consistent flooding that accompanies the passage of hurricanes have widespread damaging effects on agricultural production, and as a result the development and advancement of rural communities. When main export crops are severely damaged or even completely destroyed as a result of the passage of a hurricane, then economic problems that impact the entire economy results. This necessitates immediate adjustments to existing trading patterns and relationships, as there will be an immediate demand for increased imports, which itself results in negative movements in the balance of payments.

Caribbean economies suffer greatly when prices of their export crops drop on the world market. In addition to immediate loss in earnings, other negative developments include balance of payment problems and escalation in debt. There is also an additional impact on the country's ability to purchase inputs necessary for production as market relationships are disrupted. Literature from the Food and Agriculture Organization (FAO, 2004a), reveal that generally instability of world prices tend to be higher for agricultural raw materials and tropical beverages, both key export earners for the SVE's of the CARICOM. The net effect of the reduced commodity prices in world markets on the SVE's of CARICOM is that they lead to increases in unemployment and as such disrupts rural stability while leading to increases in rural poverty.

The fact that most Caribbean agricultural exports are shipped to a few markets makes Caribbean exporters powerlessly subjected to the policies which govern the trading environment in those countries. It must be recalled that most Caribbean exports go to EU markets because of preferences and the US markets because of proximity. The EU and the US are both dominant players in the WTO, this means those countries unreservedly support the policies of increased trade liberalization promoted by the WTO. However, expanded trade liberalization calls for reductions in preferences and increased price and product competitiveness hinged on new requests for adherence to sanitary and phyto-sanitary regulations. These pressures severely impacted the Caribbean's export potential, particularly exports of sugar and bananas. The results were severe and wide reaching, and in the case of one CARICOM small state, St. Kitts, sugar production for export was stopped altogether in the first decade of the twenty-first century.

Caribbean economies have been described as being open. This openness makes the consumption of domestic agricultural goods to be consistently challenged by imports that can be acquired at a less expensive cost due to declining world market prices. Generally, the real prices of most agricultural commodities have shown a declining trend on the world market since the 1980's. The cheaper imports acquired as a result places consistent pressure on domestic producers. This has led to response at the domestic level in many CARICOM small states that saw production levels continually drop. Econometric analysis undertaken in a number of studies have shown that openness to trade leads to extreme trade fluctuations in many CARICOM small states.

The continual removal of barriers to world trade meant that the most competitive global producers increased their market share. With low levels of competitiveness, high costs of production caused by limited resources, high transport costs, low economies of scale, and small size, Caribbean economies cannot be numbered among the most competitive globally. Expanded trade liberalization therefore without complementary measures to offset the associated shocks, will always render CARICOM small states impotent with respect to global competitiveness.

One measure that can help SVE's improve their competitiveness is to attract private foreign investment. However, the small market size and the prevalence of small firms makes this proposition unattractive to investors. Additionally, weather related risks make it difficult for the agricultural sectors of CARICOM SVE's to attract foreign investment.

The prevalence of monopolies in the Caribbean region allows for rigidities in the structure and operation of markets. This makes difficult the process of resource allocation, a necessity as a result of policy changes in the international trading system. Those rigidities result in low levels of private sector participation thereby placing additional pressures on government resources. Additionally, small farmers in the Caribbean do not have the means to readily switch production to alternate products, neither when needing to respond to large inflows of cheaper imports nor to take advantage of new trade opportunities.

It was already stated that tariffs are very important to government revenues. One WTO condition however is that there be a reduction in the levels of tariffs globally to support the expansion of trade liberalization. Any reduction in tariff revenues for CARICOM governments cannot easily be offset by raising taxes elsewhere in the economy. In situations where a significant portion of tariff revenue are reinvested in the development of the agricultural sector, then reductions in import tariffs can have negative effects on rural poverty.

High transport costs also serve to reduce the ability of Caribbean countries to compete globally. In terms of export diversification this also serves to limit the choice of products that can be exported. Diversification into agro-processed products which would allow for the export of secondary products is also limited because agro-processing usually require the use of high levels of imported imports, which will also be affected by transport costs.

The trade related issues discussed contribute significantly to the structural features of Caribbean economies, their significant share in international trade, and their limited capacity to participate in WTO negotiations.

CHAPTER 6

Analytics of Trade Data in CARICOM Countries

This chapter presents data to support the arguments made with respect to CARICOM and other Caribbean economies being small and vulnerable. Data will also be presented to support the arguments made in connection with the impacts smallness and vulnerability presents in light of participation in global trade. Finally, this section will discuss three key agricultural products that have been the traditional mainstay of the Caribbean's export trade. Those agricultural products are sugar, bananas, and rice. Some relevant data will also be presented to support all arguments.

Table 1:- Evidence of openess to world trade of selected Caribbean countries (2001 - 2003 averge)

Country	Merchandise Exports (X)	Merchandise Imports (M)	X + M	GDP	X + M/GDP
	(US$million)				%
Antigua and Barbuda	44	397	441	729	60
Bahamas	431	1801	2232	5087	40
Barbados	225	1086	1311	2606	50
Belize	181	531	712	959	70
Dominica	42	124	166	257	60
Dominican Republic	5304	7627	12931	19913	70
Grenada	39	221	260	412	60
Guyana	497	568	1065	720	150
Haiti	300	1110	1410	3338	40
Jamaica	1170	3512	4682	8351	60
Saint Kitts and Nevis	35	198	233	356	70
Saint Lucia	50	356	406	671	60
Saint Vincent and the Grenadines	39	187	226	364	60
Suriname	503	552	1055	912	120
Trinidad and Tobago	4446	3701	8147	9399	90

Source: World Bank and FAOSTAT, 2006

Table 1 above not only prove that Caribbean economies are very open to the dynamics and vagaries of world trade, but it also clearly shows that these economies are overly dependent on the rest of the world for the very basic necessities of their existence. Of the fifteen selected countries, only one, Trinidad and Tobago, imports less than one hundred percent of its value of exports on an average yearly basis. Actually the data reveals that only two other countries import between one hundred and two hundred percent of the value of its exports, two other countries import between two hundred and three hundred percent of the value of its exports, and all other countries import in excess of three hundred percent of the value of its exports. Actually, the openness and dependence on world trade is so strong that one Caribbean country, Antigua and Barbuda imports a massive nine hundred and two percent of the value of its exports. Those great disparities are indicative of serious balance of payments deficiencies, with even greater impacts on foreign reserves critical to small economies, as all international transactions occur only in accepted international currencies.

Table 2:- Agricultue exports of selected Caarribean countries as a percentage share of total merchandise exports

Country	Selected Years		
	1990 - 1992	2001 - 2003	
Antigua and Barbuda	2.7	0.2	
Bahamas	1.8	1	
Barbados	27.9	28.8	
Belize	69	64.1	
Dominica	67.4	39.7	
Dominican Republic	54.8	63.8	
Grenada	65.2	40.5	
Guyana	42.9	32.9	
Haiti	18.4	6.5	
Jamaica	21.2	21.3	
Saint Kitts and Nevis	41.5	10.3	
Saint Lucia	65.4	68.3	
Saint Vincent and the Grenadines	77.5	69.4	
Suriname	9.7	7.2	
Trinidad and Tobago	5.7	5.3	
Source: FAOSTAT, 2006			

Table 2 focuses the microscope on the agriculture sector and the contribution it makes to total trade interactions in selected Caribbean economies, specifically with respect to exports. What table 2 shows is that quite a number of Caribbean countries, eight of the fifteen named on the table, show quite a strong dependence on their agriculture sectors, not only for economic stability, but also for their very immersion into world trade. This point is even further substantiated when the data presented in table 3 overleaf is analyzed.

Table 3:- Employment in the agriculture sectors compared to total employment in Caribbean countries (2000)

Country	Total employment (Thousands)	Employment in Agriculture (Thousands)	Percentage (%)
Antigua and Barbuda	32	8	25
Bahamas	156	6	3.8
Barbados	147	6	4.1
Belize	83	25	30.1
Dominica	35	8	22.9
Dominican Republic	3612	603	16.7
Grenada	37	9	24.3
Guyana	319	56	17.6
Haiti	3458	2156	62.3
Jamaica	1284	264	20.6
Saint Kitts and Nevis	19	4	21.1
Saint Lucia	64	15	23.4
Saint Vincent and the Grenadines	50	12	24
Suriname	159	30	18.9
Trinidad and Tobago	573	50	8.7
Totals	10028	3252	32.4
Source: FAOSTAT, 2005			

Table 3 presents data concerning the number of persons employed in the agriculture sectors of selected Caribbean countries in relation to total employment in those countries. What these figures do indicate is that although the contribution of agriculture to employment can be considered as moderate to high in most countries, in Barbados and Trinidad and Tobago, it would have to be considered as low. However an analysis of the Totals row show that 32.4% of all employment in the Caribbean region is in the agriculture sector. This is fairly high, and while the argument of dependence upon the agriculture sector is well founded, another concern is that such dependence suggests a lack of economic diversity in regional economies. Such lack of diversity places regional countries at a very distinct disadvantage when faced with sudden, unexpected economic shocks. Caribbean economies are also known to be very limited in terms of being able to respond progressively to even previously anticipated changes in the world economy, and the expected occurrences of yearly hurricanes that visit the region.

Table 4 overleaf reveals generally high rates of food importation by Caribbean countries. Across all categories of foods recorded imports are generally high. This means a few things for Caribbean countries which are not encouraging from an economic standpoint. These include:

Generally Caribbean countries exercise little control over their food security status. This type of dependent openness exposes citizens to all the vagaries of world trade including price volatilities on world markets, inability to influence production practices in major production places, and unstable rural economies due to lack of support structures and general underdevelopment in rural areas.

Large amounts of budgeted revenues on food importation means significant amounts of scarce resources are made unavailable to other sectors of the economy be it health, education, sports and entertainment or other. The net result is stagnant economies, prolonged underdevelopment, balance of payment problems, trade deficits, and increased poverty.

Heavy dependence on world trade through importation to satisfy economic needs places an economy in a position where it is very open to and affected by changes in the international environment. With specific reference to the Caribbean, the oil shocks of the 1970’s and the 1980’s, together with changes in the preferential marketing arrangements they received, resulted in adverse movements in them.

Table 4:- Food imports into the Caribbean - selected food groups (kg/person/year)

Country	Cereals and cereal products (excluding beer)			Meat and meat products (slaughtered)			Fruit and fruit products (excluding wine)			Vegetables and vegetable products			Milk and milk products		
	1969 - 1971	1990 - 1992	2001 - 2003	1969 - 1971	1990 - 1992	2001 - 2003	1969 - 1971	1990 - 1992	2001 - 2003	1969 - 1971	1990 - 1992	2001 - 2003	1969 - 1971	1990 - 1992	2001 - 2003
Antigua and Barbuda	95	101	82	27	76	52	31	29	47	14	38	10	46	77	70
Bahamas	118	107	118	84	97	101	66	119	215	45	60	54	142	129	99
Barbados	137	285	272	51	43	37	49	72	119	13	14	32	115	86	106
Belize	100	99	115	18	16	8	6	9	14	9	11	21	116	147	78
Dominica	78	117	109	20	48	57	7	16	10	5	10	14	46	95	110
Dominican Republic	25	106	164	0	0	0	1	1	4	1	1	2	19	29	9
Grenada	104	211	324	18	48	81	6	27	40	5	8	12	72	148	144
Guyana	72	78	92	4	6	6	5	0	13	5	0	39	50	14	69
Haiti	10	48	79	0	0	4	0	0	1	0	1	2	4	9	8
Jamaica	157	172	222	11	13	16	5	3	18	4	2	9	61	42	41
Saint Kitts and Nevis	110	163	163	21	75	126	4	41	87	7	22	58	87	109	138
Saint Lucia	90	156	182	20	68	86	17	55	71	5	16	25	48	205	144
Saint Vincent and the Grenadines	93	342	297	11	53	64	2	10	35	3	2	8	72	70	84
Suriname	85	137	108	12	3	29	3	1	4	9	10	18	25	46	24
Trinidad and Tobago	192	213	201	9	9	12	11	41	32	8	16	22	115	96	103

Source: FAOSTAT, 2006

terms of trade which directly resulted in balance of payments problems.

The final point of importance here is that high rates of food importation severely restrict development of a local production sector. This restricts the creation of domestic wealth as well as promotes the spread of poverty, since expensive foreign exchange earned in other sectors, and badly required for development purposes has to be spent on the acquisition of food. This point is well supported in table 5 below which reveals food imports into the Caribbean as a percentage of domestic supply.

Analysis of table 5 shows that throughout the region quite a great amount of the foods consumed is imported. With respect to the data provided on table 5 this is particularly true for cereals and milk. What table 5 does not indicate is the fact that most, to almost all of those food imports, originate from countries outside the region. While there is some amount of intra-regional trade in fruits and vegetables, it is in no way comparable to even the extra-regional trade in those products. The net result therefore is that quite large sums of foreign exchange are sent outside of the region on a weekly basis to pay food producers. When the microscope is placed on agricultural trade as revealed in the statistics provided on table 6, it is easily seen that a gigantic sixty four percent of that trade is due to imports with only roughly thirty six percent of such trade being exports. It is clear therefore that with respect to agricultural trade in the CARICOM and wider Caribbean region there is a very large imbalance as the quantity of food imports greatly exceeds the quantity of food imports. This is a very difficult reality, and while the effects of its continued sustenance are damaging, it also stagnates development at a very fundamental level, while leading to a dependence whose effects are more far reaching than the meal time interactions of Caribbean peoples.

Table 5:- Food imports as a percentage of domestic supply

	Selected Food Groups				
Country	Cereals	Fruits	Vegetables	Milk	
Antigua and Barbuda	98.7	14.7	15.9	48.9	
Bahamas	99.5	45.9	27.1	95.1	
Barbados	110.4	78.9	28.5	78.4	
Belize	29.2	0.3	25.9	86.3	
Cuba	63.2	0	0.7	38.1	
Dominica	97.7	0.1	9.7	54.9	
Dominican Republic	65	0.9	1.2	11.5	
Grenada	176.2	0.4	18.7	95	
Guyana	19.5	0.5	14.1	61.4	
Haiti	62	0	3.3	46.8	
Jamaica	100	0.3	5.9	80.6	
Saint Kitts and Nevis	100	33.8	68.7	81.5	
Saint Lucia	100	0.6	76.4	94.5	
Saint Vincent and the Grenadines	205.9	0.4	13.8	86.6	
Suriname	22.5	1.4	13.8	35.6	
Trinidad and Tobago	103.9	11.6	50.4	95.5	
Source: FAOSTAT, 2006					

Table 6:- Significance of agricultural imports to total agricultural trade (2001 - 2003 averge)

Country	Imports (US $) (million)	Exports (US $) (million)	Ratio of imports to total trade
Antigua and Barbuda	30	1	0.97
Bahamas	249	45	0.85
Barbados	169	71	0.71
Belize	70	118	0.37
Dominica	29	15	0.66
Dominican Republic	798	604	0.57
Grenada	35	18	0.66
Guyana	90	177	0.34
Haiti	419	20	0.96
Jamaica	455	289	0.61
Saint Kitts and Nevis	41	7	0.86
Saint Lucia	69	32	0.68
Saint Vincent and the Grenadines	40	27	0.6
Suriname	93	28	0.77
Trinidad and Tobago	372	193	0.63
Total	**2959**	**1645**	**0.64**

Source: World Bank and FAOSTAT, 2005

Compounding the problem that in the Caribbean region imports of agricultural products greatly exceeds exports of agricultural products, is the fact that exports are limited, and the markets to which products are exported are few, these facts are clearly seen in the data presented on tables 7 and 8. Limited products for exports is indicative of production that is concentrated in a few products only. This is a Caribbean reality, as most nations continued with those agricultural production practices inherited during slavery and failed to diversify and expand over time. Few markets is indicative of the fact that during slavery and the propagation of the plantation culture, markets were guaranteed by the colonizers who invariably comprised the investor class. Those guaranteed markets were further institutionalized through preferences, and this combined with the fact that Caribbean producers and exporters were never motivated to actively seek markets outside of those that were guaranteed has led to these undesirable situations as the international economic environment underwent and continues to undergo change.

Table 7:- Export dependence of selected Caarribean countries (2001 - 2003 average)

Country	Share of top single agricultural commodity in: Total agricultural exports (%)	Total merchandise exports (%)	Export earnings of top agricultural commodity as a percentage of GDP	Top single agricultural export commodity
Antigua and Barbuda	31.3	0.4	0.7	Alcoholic beverages
Bahamas	55.4	3.5	2.4	Alcoholic beverages
Barbados	31.7	8.6	0.8	Raw sugar
Belize	28.3	24	5.6	Orange juice
Dominica	63.1	26.1	4.7	Bananas and plantains
Dominican Republic	40.6	26.3	1.1	Cigars
Grenada	57.4	21.4	3.4	Spices
Guyana	41.3	20.1	14.1	Raw sugar
Haiti	25.7	2.3	0.2	Mangoes
Jamaica	26.6	4.8	0.9	Raw sugar
Saint Kitts and Nevis	83.8	14.2	2.2	Raw sugar
Saint Lucia	68.2	65.5	4.3	Bananas
Saint Vincent and the Grenadines	49.8	38.6	4.6	Bananas
Suriname	31.2	3.7	2.2	Husked rice
Trinidad and Tobago	30.9	1.8	0.8	Non - alcoholic beverages

Source: FAOSTAT, 2005; World Development Indicators, World Bank, 2005

Table 8:- Major markets for agricultural exports by percentage (2001 - 2003 average)

Country	CARICOM	EU	USA	Other
Antigua and Barbuda	74.5	4.2	13.8	7.5
Bahamas	0	69.7	27.9	2.4
Barbados	41.8	35.3	12.9	10.1
Belize	13,9	48.5	32.6	5
Dominica	24.7	66.8	2.4	6.1
Dominican Republic	1	19	60	20
Grenada	26.6	55.8	9.5	8.1
Guyana	25.9	63.3	3.4	7.5
Saint Kitts and Nevis	6	87.7	1.2	5.1
Saint Lucia	28.2	69.1	1.6	1.1
Saint Vincent and the Grenadines	48	47.3	1.6	3.2
Trinidad and Tobago	67.6	13.4	8.6	10.4

Source: World Integrated Trade Solution (WITS), World Bank, 2005

Sugar, Bananas, and Rice – An Analysis

This section will provide an analysis of the performance of the three major export crops produced in the CARICOM and wider Caribbean region. Sugarcane and bananas have long been grown in the Caribbean region particularly those Caribbean countries named on tables 9 and 10. This reality allowed Caribbean countries to achieve the status of very important foreign suppliers of sugarcane and cane sugar to the European Union.

A historical investigation of the relationship reveals that the sugar industry in the Caribbean has always enjoyed strong linkages in Europe. From the earliest times France operated an import duty system which regulated import flows to ensure timely supplies of raw cane to their local processors. Processed sugar produced in the region, that was in excess of domestic consumption was also exported to France, with a subsidy corresponding to the duty paid on the import of raw cane. Around the middle of the nineteenth century, technological advancements allowed for the production of sugar from beet, a crop grown in Europe. A quota system with guaranteed prices, already used in Germany, was adopted by a number of other EU nations as a means of regulating cane sugar imports from the rest of the world, Caribbean producers were therefore subjected to the conditions of those new regulations. About a century later, around the middle of the twentieth century, the Common Agricultural Policy (CAP) of the EU was implemented, and adopted the established and in place regulatory measures. This common market organization remained in place up to 2005, and was based on quotas, guaranteed prices, a highly administered import structure, and subsidized exports, with foreign trade supplementing local beet sugar production.

In the late 1970's an attempt to launch an international commodity agreement failed. The main reason for this failure was the unwillingness of the European countries to constrain the EU domestic support regime. In response to such actions the United States introduced a tariff rate quota system for sugar. The result therefore was that access to the two most important sugar export markets became tightly administered. Imports to European markets were now only allowed through preferential arrangements. This type of arrangement remained in place up until 2005, when reform of the EU domestic regime began as a result of the Everything but Arms (EBA) initiative in the sugar sector that forced change in trade flows. The impact of all the changes in sugar trade has triggered responses from both producers and exporters in the Caribbean. Some of those effects are shown on tables 9 and 10 below.

Table 9:- CARICOM countries sugarcane output (Thousands of tonnes)

Country	1990 - 1992	1996 - 1998	2002 - 2004
Barbados	574	518	381
Belize	1114	1194	1124
Guyana	2905	2965	3000
Jamaica	2583	2432	1947
Saint Kitts and Nevis	217	254	193
Trinidad and Tobago	1357	1293	951

Source: FAOSTAT

Table 10:- CARICOM countries sugar exports (Thousands of tonnes of raw sugar equivalents)							
				Average shares by destination (2002 -04)			ACP sugar
	1990-92	1996-98	2002 -04	EU	N. America	Regional	protocol quotas
Country							
Barbados	50.7	51.5	35.4	0.9	0.1	0	31.5
Belize	92.9	104.3	93.5	0.6	0.3	0.1	40.6
Guyana	169.7	246.7	321.1	0.6	0	0.4	160
Jamaica	146.6	173.4	138.6	0.7	0.3	0	119.3
Saint Kitts and Nevis	20.4	23.9	9.9	0.7	0.1	0.3	15.7
Trinidad and Tobago	59.4	70.1	34.9	0.6	0.1	0.3	47.2
Source: FAOSTAT							

The key observation from tables 9 and 10 is that with the exception of Guyana, most sugar producers in the CARICOM and wider Caribbean region experienced fluctuations and eventual declines in production and exports over the period 1992 to 2004.

The banana trade in the Caribbean, although unique, shared some of the characteristics of the sugar trade. The overall effects were also the same, whereby, as a result of increased regulation over time, the contributions made by the banana trade to Caribbean economies declined over time. In 1957, at the signing of the Treaty of Rome, European Community members agreed that a tariff, and optimally a quota, would be imposed on all banana imports from countries that were not members of the African Caribbean and Pacific (ACP) group. This commitment to ACP countries through the granting of preferential market access had its foundation in the reality that at the time, all ACP countries were either colonies or former colonies of European Community member states. This facility extension was therefore viewed by member states as tangible evidence of them assisting with economic development in those colonies and former colonies. The facility was deeply appreciated by ACP countries because their economies were not diversified economically, and in the main each was dependent on one or two major export crops. The extended facility therefore allowed them to move beyond traditional production, marketing, and distribution processes, and benefit from increased economies of scale. Tables 11, 12, and 13, show the effect on the number of banana producers in Caribbean countries, export of bananas from Caribbean countries, and export earnings from banana trade to Caribbean countries. The general trend in all three tables is that as the banana trade became more and more regulated over time, its contribution to economic development in the Caribbean steadily declined.

Table 11:- Windward Islands Registered Banana Farmers (Thousands)

Country	1994	1996	1998	2000	2001	2002	2003
Dominica	6.8	5.5	2.9	2.4	1.3	1	1
Grenada	0.9	0.2	0.1	0.1	0.1	0	0
Saint Lucia	8	6.7	4.5	4.8	3.8	2	2
Saint Vincent and the Grenadines	7.4	5.7	4.2	3.8	2.2	2.5	2.3
Totals	23.1	18.1	11.7	11.1	7.4	5.5	5.3

Source: St. Lucia Statistics Department, 2006

Table 12:- Banana Exports from Windward Island countries (Volume - Tonnes)

Year	Dominica	Grenada	Saint Lucia	Saint Vincent and the Grenadines
1985	33829	8043	81929	40720
1986	51284	7940	112004	38246
1987	61618	8130	85993	35306
1988	71474	9129	128091	61836
1989	50313	8620	125588	65663
1990	56617	7486	133777	79561
1991	55254	6926	100600	62878
1992	58024	6300	132854	77361
1993	55486	4688	120127	58371
1994	42781	4544	90119	30925
1995	32324	4514	103668	49900
1996	39533	1850	104805	43986
1997	34902	102	71397	31021
1998	28135	94	73039	39887
1999	27264	583	65196	37376
2000	27157	722	70280	42336
2001	17575	566	34044	30498
2002	16983	507	48160	33243
2003	10379	393	33972	22558
2004	12721	338	42326	22631
2005	4610	0	12223	7327

Source: Windward Island Banana Development and Exporting Company, 2006

Table 13:- Value of Windward Island Banana Exports (EC$ millions*)

Year	Dominica	Grenada	Saint Lucia	Saint Vincent and the Grenadines	Totals
1985	36	8.7	89.5	45.6	179.8
1986	67.8	10.1	150.6	53.3	281.8
1987	82.8	10.8	113.7	47.6	254.9
1988	99.4	12.7	177.4	83.5	373
1989	64.9	10.9	158	82.2	316
1990	79.6	10.3	186.9	110.5	387.3
1991	80.9	9.9	146.4	89.5	326.7
1992	82.2	7.8	184.8	101.4	376.2
1993	65.1	4.8	137.9	62	269.8
1994	55.4	5.6	115.7	39.8	216.5
1995	45.2	5.2	128.1	61.3	239.8
1996	44.5	1.5	125.8	52.4	224.2
1997	41.5	0	85.9	37.1	164.5
1998	37	0.1	91.5	55.5	184.1
1999	38.4	0.3	87	51.1	176.8
2000	28.8	0.6	29.9	47.3	106.6
2001	19.6	0.5	41.2	34.1	95.4
2002	19.7	0.5	58.7	38.8	117.7
2003	12.8	0.5	43.6	28.5	85.4
2004	16.3	0.4	53.8	28.8	99.3
2005	6.2	0	16.5	9.8	32.5

Source: Windward Island Banana Development and Exporting Company (WIBDECO), 2006

*E C $2.7 = US $1

Rice production and the rice trade in the Caribbean differs a little from that of sugar and bananas because of the importance of rice as a dietary staple, an income generator and source of security, and the benefits gained from long standing bilateral and international relationships. Unlike sugar and banana production which both grew in prominence and importance as a result of the plantation cultures established during colonization, the rice trade evolved as a result of economic and political relationships formed through the negotiation status ACP countries were allowed to develop with European Community countries. Many ACP countries enjoyed a special relationship with European Community countries long before the official formation of the ACP group in 1975. This special relationship was extended through the Association of Overseas Countries and Territories (OCT), instituted under the Treaty of Rome in 1957, and the two Yaounde Conventions in 1963 and 1969, which linked the European Community countries with the African states, Madagascar and Mauritius. Finally, in signing the Georgetown Agreement in June 1975, the forty-six ACP states further affirmed their common identity based on solidarity and accorded the ACP group proper legal status.

The most important rice producing countries of the Caribbean who are also members of ACP states namely Belize, the Dominican Republic, Guyana, Haiti, and Suriname, benefitted strongly from all the agreements formalized and described above. Within the group, Guyana and Suriname evolved to become major rice importers, while because of quantities, the Dominican Republic, Haiti, Cuba, and Jamaica were considered major rice importers. Lots of the rice trade within the CARICOM and wider Caribbean region is intra-regional, thereby allowing Caribbean countries to exercise some amount of control in their interactions, even though still being subject to the rules and practices of international trade. Table 14 overleaf displays data of rice imports into the region during the period 1996 to 2000 thereby providing insight into the importance of the rice trade for Caribbean countries. The development of a viable rice trade within the region that satisfies international specifications for production, marketing and distribution, allows Caribbean rice producers to gain international recognition, while providing valuable sources of foreign exchange for their governments and significant incomes for themselves. Finally, security of the most important staple food of Caribbean peoples is assured.

Table 14:- Rice imports to the CARICOM and wider Caribbean region (tonnes)

Country	1996	1997	1998	1999	2000
Antigua and Barbuda	650	680	650	650	650
Bahamas	5600	7410	7260	12926	8620
Barbados	10284	7738	5605	5058	8080
Cuba	338021	290564	310060	448787	392549
Dominica	1019	1260	1003	1003	1003
Dominican Republic	3400	68500	66000	82100	53600
Grenada	3715	1581	1910	1776	2056
Guyana	0	0	0	0	0
Haiti	210600	248000	216100	249000	252600
Jamaica	78705	100900	68100	69800	47200
Montserrat	100	100	25	30	30
Netherlands Antilles	64500	34700	3000	2500	5400
Saint Kitts and Nevis	921	1140	4100	1000	1000
Saint Lucia	2759	2812	3203	3624	3624
Saint Vincent and the Grenadines	8861	13866	15312	14658	6400
Suriname	0	0	0	0	0
Trinidad and Tobago	59963	29473	37327	39215	25031
Totals	789098	808724	739655	932127	932127

Source: CARICOM Secretariat

Finally table 15 below provide an overall overview of rice operations within the Caribbean region as it relates to international trade.

Table 15:- Rice production, imports, exports, and net quantities for Caribbean countries					
Country	Calculated milled rice production	Imports	Total	Exports	Quantities for domestic use
Antigua and Barbuda	0	650	650	0	650
Bahamas	0	8620	8620	0	8620
Barbados	0	6253	6253	0	6253
Belize	3500	502	4002	0	4002
Cuba	105000	392549	497549	0	497549
Dominica	0	604	604	0	604
Dominican Republic	210000	53600	263600	0	263600
Grenada	0	2056	2056	0	2056
Guyana	147110	10778	157888	182175	24872
Haiti	35000	252600	287600	0	287600
Jamaica	0	46358	46358	0	46358
Saint Kitts and Nevis	0	498	498	0	498
Saint Lucia	0	9740	9740	0	9740
Saint Vincent and the Grenadines	0	35508	35508	4547	30961
Suriname	64845	116	64961	35877	29084
Trinidad and Tobago	2100	36330	38430	1594	36836
Source: CARICOM Secretariat					

Concluding comments evolving out of data analysis

The comments made in this section are made in point form and relate specifically to the experiences of small developing states of the CARICOM and wider Caribbean region. The writer firmly believes that those experiences are unique and point to the reality that processes of development must be structured to fit specific needs of different countries and regions. One size fits all policies and rules of international engagement will fail to provide the environment conducive to the achievement of developmental goals for many countries. The net result of this failure will be further widening of the gap between developed, developing, and underdeveloped, with all the resultant negative impacts internationally. The writer therefore places the following on record as realities that must consistently occupy the thought and discussions of policy planners, practitioners, and all players in the processes of development.

The Caribbean experiences serves to reinforce the point that trade liberalization alone is not sufficient for development. It is therefore proposed that trade liberalization be pursued in a manner that give significant attention to food insecurity and poverty.

Future work on policy and programs within the Caribbean region must be based on sound analytical processes that are themselves responsive to changes in the international economic environment.

Persistence within the region with policies used in the 1970's is doomed to failure even before implementation. It is important to accept that agricultural trade policy changed considerably and irreversibly in the 1980's and 1990's when countries, in upholding multilaterally negotiated positions, moved to more liberalized economic systems committed to more liberalized trading systems.

As evidenced by the changes that occurred in sugar markets, Caribbean countries have been moved to a place where they are required to be more economically competitive if they desire to be successful. Future policies must therefore be framed in a manner that promotes movement towards more competitively based market-oriented reforms.

With regard to use of protective policies these should be used judiciously and only in circumstances when they can be internationally justified. As presently pertains in the Caribbean, the only sector for which protections can be justified is the rice sector. It must be clearly understood that the rice industry plays a very important role in the socio-economic development of the Caribbean. Any contractions within the industry will therefore have damaging effects on the economies and societies of the Caribbean, particularly of Guyana and Suriname.

CHAPTER 7

CONCLUSION

The most important issue coming out of the book is that of development and how it is impacted in the international economic community, in which liberalized trade dominates, and rules of conduct, regulation, and monitoring are determined by an organization touted to represent multilateral interests. What came out however is that the multilateral organization referred to, the WTO, due to its composition, can be perceived to represent the interests of the developed world more vigorously, to the point that the interests of developing small states are often not dealt with in a forthright manner.

With resource endowment being a key determinant to the composition of organizations such as the WTO, what is required by those in privileged positions of service, going forward, is greater understanding and appreciation for the needs of the disadvantaged. For our world to be truly respected as a global village, even as globalized trade dominates international economic interactions, the specific needs of developing states must be seen to be addressed, not just in speech, but in actions that lead to real empowerment in communities within those countries. As a recommendation it is our belief that developing countries need to be further sub-divided at the multilateral negotiating facilities, and voice be given to countries that formerly simply attended meetings, listened, and left. The present approach has created the environment for non-compliance and all the problems associated with non-compliance as it has occurred and continues to occur in international economic interactions. With all the change that occurs in the international trade environment, it is time that thought be seriously given to the manner in which issues relevant to developing small states are handled, and changes in approach be implemented.

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