Workshop on institutional changes for the NAFTA era: Belize, January 23 - 27 1995

Seidman, Robert B.

http://hdl.handle.net/2144/20056

Boston University
Excerpt from: Federation of Private Enterprises of Central America and Panama (FEDEPRICAP): Why promoting Trade and Investment in the Caribbean basin is good for the United States: Basis for a New Strategic Alliance

The impact of NAFTA on the Caribbean Basin Countries

A major concern of Caribbean Basin Countries is that, although quite unintentionally, NAFTA can be expected to produce strong investment and trade diversion effects: investment that would have come to the region, will go instead to Mexico given the benefits of the larger and more secure access to the U.S. and Canadian markets that NAFTA will grant to Mexico. Some evidence of this phenomenon is already available based on the expectation of NAFTA implementation. Negative effects can naturally be expected to increase as NAFTA liberalization schedules and legal mechanisms enter into operation. Given geographical proximity and the amount of existing trade and investment links with the U.S. and Canada, no other country or region in Latin America could fear negative effects as much as the Caribbean Basin countries.

NAFTA has an accession clause that is intended to allow the subscription of the treaty by future members. However, the use of such accession clause does not seem to be feasible by CBI countries in the short term for a number of reasons:

1. Even if NAFTA implementation proceeds as announced, that is, Congressional approval in early 1993 and operation in early 1994, it does not seem likely that serious negotiation could be started before 1994, particularly if the U.S., Canada and Mexico decide to give NAFTA a "test period" to evaluate its impact before initiating negotiations with prospective new members.

   In the meanwhile investor behavior is such that the mere expectation of NAFTA operation will produce negative trade and investment diversion effects for CBI countries.

2. Other countries are interested in applying to NAFTA membership, and if these applications are accepted, Congressional authority and negotiating time imply even longer waiting periods.

3. Given the turbulent period of the 1980's for Central America and despite the fact that important progress has been made in economic reform and structural adjustment, not all countries in the region feel ready for a full NAFTA accession even if this were a real possibility.

   These considerations have led Caribbean Basin countries to propose that, in order to avoid the negative investment and trade diversion effects, parity with the conditions of access that Mexico will achieve under NAFTA be granted to CBI countries in the same time frame as Mexico.

   Specifically, CBI countries are interested in a CBI Transition Bill that, while adopting a new approach based on reciprocity and mutual concessions, will give them the same conditions of access above CBI II trade preferences. This is particularly important in key sectors where the CBI economies are competitive (textiles and apparel, leather, shoes, sugar).

   This Transition Bill will further stimulate economic reform and other domestic preparations in CBI countries leading to an eventual accession and full membership into NAFTA in the future.
SUMMARY OF THE
"CARIBBEAN BASIN FREE TRADE AGREEMENTS ACT"

The following are the main elements of draft legislation introduced by Congressman Sam Gibbons, and co-sponsored by Philip Crane, Charles Rangel, and J.J. Pickle. The legislation is designed to protect, during a transition period, the Caribbean Basin countries from discrimination resulting from the North American Free Trade Agreement (NAFTA):

1) Mandates that all CBI beneficiary countries will have as liberal treatment, with respect to tariffs and nontariff barriers (i.e. quotas) as Mexico, for imports into the United States of products which are not eligible for duty-free treatment under the Caribbean Basin Economic Recovery Act, as amended (CBERA). (Note: except sugar, for which a "hold harmless" provision is foreseen;)

2) Mandates that the tariff changes contemplated by the bill become effective from the date of implementation of NAFTA;

3) Mandates that the resulting changes in U.S. tariff and nontariff treatment of CBI products will be for a period of three years only, terminating at the end of that period, unless called for under reciprocal bilateral agreements, or as a result of a CBI country's accession to the North American Free Trade Agreement.

4) Authorizes the President to determine appropriate levels for "tariff rate quotas" or other nontariff mechanisms that are provided for under NAFTA, and to implement such mechanisms for CBI trade, such that "parity of access" will be achieved. For example, NAFTA provides that certain apparel which does not meet the NAFTA rule of origin, would still be eligible for NAFTA duty reductions under a tariff rate quota system. The draft legislation allows the Office of the United States Trade Representative to establish an equivalent system for CBI apparel.

5) Mandates that the Administration study and report back to the Congress on the desirability and feasibility of Caribbean Basin beneficiary countries undertaking either accession to NAFTA, or entering into negotiation of free trade agreements with the United States, as groups or individually. Such a study would almost certainly be accompanied by a report by the U.S. International Trade Commission, on recent measures by CBI countries to liberalize trade and investment with the United States.

The Subcommittee is expected to reflect, in a future report on the bill, a preference for agreements between the United States and groups of countries.

6) The concessions offered by this legislation would be granted unilaterally, with no additional conditionality other than is provided for in the CBERA. All present provisions of the CBI would continue without change.

7) Authorizes the President (USTR) to enter into trade agreements with CBI beneficiary countries or groups of these countries, provided such agreements are "comparable to" the provisions of NAFTA and to the NAFTA supplemental agreements on labor, the environment, and import surges. This authority would be valid until June, 1996, and contains a streamlined version of the fast-track procedure which will be used when Congress considers NAFTA.
LOMEL CONVENTION

Belize is one of 69 contracting parties to the Lome Convention between the members of the European Economic Community (EEC) and former colonies known as the African, Caribbean and Pacific States (ACP). The convention comprises a set of provisions in trade and other economic cooperation. The main trade benefit is duty free access to EEC countries for 99.5% of exported products in ACP. For the remaining 0.5%, the ACP states are now guaranteed trading terms at least as good as those offered to any other country by the EEC. To determine whether or not an article is a genuine ACP product eligible for exemption from custom duties the rules of origin have been eased up. All products in future can contain up to 5% of "foreign" components without disqualification. One restriction (that at least 50% of all the components used must be "home made" to qualify) has been lifted for a number of articles. For radios, televisions previous insistence on at least 3% of the transistors used being "being made" has been dropped.

Is the Caribbean prepared for the challenge of the Single Europe
Excerpt from: Summary of a speech to the West India Committee, by Peter Pooley - Deputy Director General for Development European Commission.

The Simple answer is ‘no’. (Can I go home now?)

Many others are not ready either.

The commission is not ready ....

The first anecdote concerns my holiday in the Caribbean this year. We moved between three islands. At each point of arrival and departure we had forms to fill in, for immigration, customs, and for currency control. We had to wait to be invigilated by two sets of officials, one at entry and one at the exit. Passports were closely examined and stamped. Baggage was opened on a sample basis. Everyone was very courteous, but border formalities took up four to five hours of our holiday. And I speak of islands, two of which are situated within sight of one another. I will not reveal the names of those states, but, purely by coincidence, I interrupt my speech at this moment to welcome to Brussels the Prime Minister of St. Vincent and of St. Lucia who are sitting on this event. I hope they will be able to enjoy visits to neighboring Community countries, also, while they are here.

The second anecdote concerns a distinguished delegation of Jamaican businessmen, who visited Brussels recently. They landed first in the Netherlands, visited Rotterdam, and then came on by coach to Brussels. At a certain point of the journey, one of them asked when the bus would reach the frontier: "Didn’t you notice?" came the reply "we passed it ten minutes ago". The only formality was that the bus had to slow down to 60 k.p.h. Well, 70 k.p.h. is OK if you smile at the policeman.

One lesson to draw from that second anecdote is the disquieting one that in some respects 1993 has already arrived. These great events cast a shadow before them, because people anticipate the event. There is comfort here too; however, for those who feel unprepared. Such great event unfold slowly. Some few changes will take place overnight, and they will be highly visible changes: but the most important changes will as ever take place over a long period, beginning earlier than you expect and finishing later than you think. There is yet time.

There is yet time to prepare, as that Jamaican delegation were doing, for an approach to trade development much more sophisticated, and above all, more integrated that in the past. In one sense, trading with us is going to be easier. If you can comply with the requirements of one member state, and get your goods in, they can then circulate as freely as the Jamaican delegation. One set of forms to fill in for twelve markets - 18, including EFTA. One, much simplified, rules of origin procedure under
Lomé. But to face the competition, whether, like Europeans, you are selling from inside the market, or - like you - from outside, everyone will need to be very sure about supply of the product. You cannot afford to run out just as the profitable repeat orders come in. Design will have to be constantly improved, packaging constantly up-dated, transport links will have to fit more tightly, financing will have to fit more flexible, market research and marketing more sophisticated. This is what Europeans have already learnt about the challenge of the big market. Further, these operations will need to be carefully integrated - you cannot afford to have a weak link in the chain, or different parts of the integrated operation being ready at different times. The days when we could have all the fun and sport of shooting ducks as they fly over, in their random way, and mission a good few of them, are over. We have to catch our ducks, put them all in a row, and then - bing bing bing bing.

Getting ducks to stand in a row is now easy. One of the reasons for the success of Europeans in trade is our very wide choice of ducks; from which to choose the tame ones. It has become and will become ever easier for us, ever more natural, to put an integrated package together which relies upon supply from two or three countries, design work in another, financing in another, insurance and transport in another, market research from anywhere - depending upon where the comparative advantage lies. In the present state of the Caribbean, you can only do this with difficulty and with much formality. Even moving a trading package as simple as tourist Pooleys around the place requires a high degree of procedural formality.

There is a deeper message behind this one. I speak of European experience still, and it is for you to decide whether it is transferable to the Caribbean. Our recent experience still, and it is for you to decide whether it is transferable to the Caribbean. Our recent experience shows that the conditions which favour success in international trade are more or less the same as those which favour intra-regional trade which in turn are much the same as those which favour internal trade. Or, you can put it the other way round if you like; if you are good at trading internally, you have every chance to be good at trading within the region; and if you are good at that, you have every chance in the wider world. Further, the most important of those conditions is liberation. How is it that the Community, many of whose Members only joined a decade or two ago, has become so good at international trading? In large part, because we first became good at intra-regional trading. Because we were forced to do so. Because we liberalized. More liberal trade means more trade. Always has done, always will do. And I think we are beginning to prove that stable and exchangeable currencies boost trade considerably.
Excerpts from: LDC\MDC Trade Development Project. A project to develop the reduction of the trade gap between the LDCs and MDCs of the Caribbean Community.

As a member of CARICOM, Belize has duty-free access to other CARICOM countries. CARICOM produced goods enter member countries duty-free provided that:

Value added in the country of origin is at least 40 percent for goods produced in the less developed countries (LDC’s) of Antigua and Barbuda, Belize, Dominica, Grenada, Montserrat, St. Kitts\Nevis and St., Vincent and the Grenadines.

Value added in the country of origin is at least 50 percent for goods produced in the more developed countries (MDC’s) of Bahamas, Barbados, Guyana, Jamaica and Trinidad and Tobago.

The Common Market Council in 1990 amended the Rules of Origin to achieve a higher degree of complimenting the Common External Tariff (CET) in meeting the challenges of international competitiveness in production and trade. The amended Rules of Origin have not been entered into force.

A revised Common External Tariff (CET) was scheduled to be implemented by the Caricom region on January, 1993 but it was delayed due to the petition of some member state countries including Belize. The tariff code will be consistent with the international classification in keeping with GATT. As one of the main elements of integration, this tariff will represent a lowering of duties for goods coming into the region and the elimination of all tariffs on trade between member states on goods that meet the qualifying criteria under the Rules of Origin.

Balance of Trade

The trade balance between Belize and the MDCs has shown extreme variability, moving from -EC\$2.9M in 1986 to EC\$12.6M in 1987, EC\$0.3M in 1988, and -EC\$12.2M in 1990. Belize has been the only LDC Member State to achieve an overall positive balance of trade with the MDC’s (EC\$12.6M in 1987). In 1990 Belize enjoyed trade balance with Barbados and Guyana, a positive balance of EC\$4.8M with Trinidad and Tobago and a negative balance of -EC\$17.0M with Jamaica.

The total trade balance of Belize moved from -EC\$122.9M in 1986 to -EC\$288.1M in 1990.

Domestic exports of Belize to the MDCs have remained fairly constant over the period 1988 to 1990 at approximately EC\$22M.

Jamaica has been the most consistent importer from Belize, accounting for an average of 50 percent of the exports of Belize to the MDCs over the period 1988 to 1990. Trinidad and Tobago has been the second largest importer from Belize, accounting for 44 percent in 1990.

Intra-Caribbean exports by Belize to the MDCs in 1990 (EC\$22M) represented less than 8 percent of total exports by Belize.
Exportable Products

Four items have been identified for increased exports from Belize to the MDCs: furniture, beef, red kidney beans and peanuts.

Furniture

The production of wood furniture in Belize faces the following constraints:

- Limited production capacity.
- Lack of continuity of supplies.
- Poor quality of raw material.
- Lack of quality control, poor processing standards.
- Inadequate technical, technological and managerial skills.

The furniture industry produces for an undiscerning, captive and small home market.

Target Niche

It has been suggested that furniture exports from Belize to the MDCs (Barbados, Jamaica and Trinidad and Tobago) should be confined to traditional reproductions, modern fashion-oriented designs (in self-assembly or ready to assemble kits), doors, mouldings. It is also suggested that there could be a niche for hardwood lumber (worked and dressed to the specifications of a particular MDC furniture manufacturer or producer of building supplies) and wood veneer.

Production for export will require improvements in the quality and quantity of lumber available and in the design and manufacture of the products selected.

Furniture and Domestic Woodware: A core group of existing small manufacturers should concentrate on favoured items designed for one market e.g. luxury hotel furniture, executive office furniture or reduced sized, ready to assemble furniture for town houses and small houses.

This core group of manufacturers will require technician assistance in design, quality management, in-laying techniques, as well as packaging furniture for export.

The core group of manufacturers should engage in joint export marketing and shipping. The furniture industry of Belize should present itself to the MDC markets as a single company offering a range of products.

Flexibility should be the guiding principle in marketing, the manufacturers should be restructured so as to respond rapidly to retailer, hotel industry, or building contractor demands.

BEEF

Belize produced 1,451 tonnes of dressed beef in 1990. This level of production was approximately 30 percent of the usual level of beef production in CARICOM. Beef production in Belize is surpassed only by Jamaica and Guyana.
Meat packing has been affected by the closure of the USDA certified packing house.

Exporters/ producers of beef from Belize should focus, at least initially, on exports of de-boned beef to Jamaica and Barbados, specifically to the tourist industry. In the medium term, Belize should examine the production for export of beef products that do not require refrigerated shipping.

Marketing Requirements

The major challenge facing beef exporters is the task of removing the stigma of hoof and mouth disease from Belize and the acceptance of CARICOM standards for beef. Beef from Belize has proven in the past to be price competitive.

The problems and increased costs of trans-shipment of refrigerated containers through Miami suggests that there should be a short-term market focus on choice cuts and the tourist market. In the long-term the market focus should include:-

a). Increased production of beef products that do not require refrigeration, and

b). Implementation of a direct reefer service to Jamaica.

RED KIDNEY BEANS/PEANUTS

Red Kidney Beans

Belize and Jamaica are the major CARICOM producers of red kidney beans. Belize produces approximately 2,574 tonnes and Jamaica 3,996 tonnes annually. Farm-gate price is EC$2.60 per kg in Belize and EC$5.96 per kg in Jamaica.

The Jamaican production is consumed locally with exports from Belize to Jamaica.

The principal producer of peanuts in CARICOM is Jamaica which produces 2,363 tonnes per annum (87 percent of CARICOM production). Belize is not a major exporter of peanuts at present, production being a mere 114 tonnes annually. Potential exists for greatly increased production. Belize is a relatively efficient producer, with a farm-gate price of EC$2.78 per kg, compared to EC$4.17 per kg in Jamaica.

Jamaica is already a major market for red kidney beans from Belize. Jamaica and Trinidad and Tobago represent major markets, importing EC$0.7M and EC$3.6M from extra-Regional source in 1990.

Substantial quantities of peanuts are also required by packing industries in Barbados, Jamaica and Trinidad & Tobago. (St. Vincent and the Grenadines produced 156 tonnes from 156 acres planted).

Facilities are already in place for the production of both red kidney beans and peanuts. There are investment opportunities in expanding the area planted and handling/storage facilities which should be flexible and able to produce and handle either or both crops.

Belize is an efficient producer of red kidney beans and peanuts. The containment of post-harvest costs, especially transportation is however a pre-requisite. The marketing efforts should be based on joint marketing and shipment of both (and other similar) products and the utilization of a direct shipping service to Jamaica.
Belize Chamber of Commerce & Industry
Private Sector Conference - 1993

CARIBCAN

The Main Elements

In February 1986 the Canadian government announced the creation of CARIBCAN, a programme for trade, investment and industrial cooperation for the Commonwealth Caribbean region. In June 1987 CARIBCAN came into effect after the required legislation was adopted by the Canadian Parliament.

CARIBCAN's main feature is the unilateral extension by Canada of preferential duty-free access to Canadian market for almost all imports from the Commonwealth Caribbean countries. But CARIBCAN also contains measures to encourage Canadian investment and other forms of industrial cooperation with the region.

CARIBCAN's basis objectives, then, are to enhance the Commonwealth Caribbean's existing trade and export earnings; improve the trade and economic development prospects of region; promote new investment opportunities; and encourage enhanced economic integration and cooperation within the region.

Duty-Free Treatment

In 1986 the Canadian Customs Tariff was amended to provide duty-free access on a preferential basis for goods from the Commonwealth Caribbean. This duty-free access applies to almost all goods that are currently imported from the area, as well as to goods that could be exported in the future.

Canada has attached no time limit to CARIBCAN. However, because granting duty-free access for imports from the Commonwealth Caribbean conflicts with Canadian obligations under the General Agreement on Trade and Tariffs (GATT), Canada had to obtain the approval of the GATT Contracting Parties. The Contracting Parties in November 1986 granted a waiver for Canada that permits the duty-free provisions of CARIBCAN. The waiver was granted until 1988, at which time Canada will need to request its extension.

Exclusion

A few products are excluded from duty-free treatment under CARIBCAN, reflecting the economic sensitivities of certain industries in Canada. These products include textiles and clothing, footwear, luggage and handbags, leather garments, lubricants oils and methanol.

These excluded products will continue to be subject to Canada's most favoured nation (MFN) tariff, or to the lower rates of duty for developing countries under the General Preferential Tariff (GPT) or under the British Preferential Tariff (BPT).
"Rules of origin" have been established to determine which goods are entitled to enter Canada duty-free under CARIBCAN. In order to be eligible for duty-free treatment, the good must be grown, produced or manufactured in the Commonwealth Caribbean, but may incorporate material of components from outside the area if they meet certain conditions. A minimum of 60 percent of the ex-factory price of goods must originate in any of the beneficiary countries or in Canada; this includes production costs (actual labor costs, research, development, design, engineering and blueprint costs, and inspection and testing costs, etc. related to the particular product); overhead (general expenses of doing business such as administrative salaries, casualty and liability insurance, etc.); profit; and export packaging.

To obtain preferential treatment under CARIBCAN, exports from the Commonwealth Caribbean countries must be accompanied by an 'original Certificate of Origin Form A. This certificate must be signed by the exporter of the goods and must also be certified by a government body in the exporting country, or by a non-governmental body that is recognized by Canada.
The Central American Common Market (CACM)

Excerpt from: Belize and Central America: Present Relationship and Integration and Cooperation Possibilities by Henry S. Gill. Study Prepared for FEDEPRICAP and BCCI

The narrowness of Belize’s production base will continue to be a severely limiting factor for quite some time hampering its US export potential in Central America, where production is far more broad-based and comprises most of what is produced in Belize. It would appear, however, that some opportunities do exist, assuming supply capabilities, for the development of exports of cocoa beans and grapefruit juice concentrate to all CACM countries; papaya to El Salvador, Guatemala and Honduras; rock lobster to Guatemala, and citrus concentrate to El Salvador. The view was also expressed in Central America that Belize could be successful in selling hot sauce and jellies.

Central American countries could benefit through increased sales of construction machinery, equipment and materials, hotel and restaurant equipment and supplies, as well as pharmaceuticals. Indeed, Belize’s heavy import dependence on manufactured imports would provide in an integration context important export opportunities for Costa Rica, El Salvador and Guatemala, the countries with the highest proportion of manufactures in their total exports, with average shares of 23.2, 21.8 and 22.1 percent, respectively, over the period 1985-90. Their manufactured exports also depend heavily on regional markets in Latin America with dependence indices in 1990 as high as 78.5 and 89.3 percent in the case of El Salvador and Guatemala, respectively. The expansion of Belize’s tourism industry also provides important opportunities for agricultural exports in such items as meat products, vegetables and fruits. Belize could in addition source from Central America requirements for such products as glassware and bottle, porcelain items, medicines, fruit juices, cheese, biscuits, as well as household and hardware products.

With regard to services, major possibilities exist in the area of tourism. Belize could also derive certain benefits arising from its bilingualism, in providing translation and interpretation services and consequently operating as a center for conference services involving Central America and other countries, and also as an English language training center for Central Americans at different levels. Central American countries could provide training in a number of areas, engineering design and construction services, as well as turnkey agro-industrial installations and sanitary installations.

From a more dynamic perspective it can also be argued that trade integration with Central America would considerably increase the scope of Belize’s market access and consequently provide a far greater incentive for domestic and foreign investment, which could lead to some expansion and diversification of the country’s production base.

Belize’s participation in a trade integration arrangement with Central American countries (whether through membership in the CACM or some special arrangement with CACM countries) could also induce Central American investors to develop greater interest in accessing the CARICOM market through Belize. It should be emphasized in this regard that, notwithstanding the relatively small demographic size of the total CARICOM membership (approximately 5.7 million people), this grouping’s market for imports has consistently been more substantial the CACM’s with import values in 1990 totaling US$7,350 million as compared with the CACM figure of 6,650 million, notwithstanding the latter’s 25.7 million population, which is more than four and a half times the CARICOM population.
This difference in import consumption levels can be explained by the twin factors of greater import dependence on the part of CARICOM countries given their generally narrower resource base, as well as higher living standards which allow import needs to be satisfied to a much greater degree. For these very reasons there is need to consider, even in the absence of some type of trade integration, ways in which Belize can serve as a trans-shipment center between CARICOM and Central America, in view of the fact that the bonded warehouse concept is already accepted in Belize.

In similar fashion Belize could constitute for CARICOM investors a production platform into Central America and for CARICOM exporters a useful route for accessing certain markets in Central America. It must be recalled that re-exports are already of some significance in Belize’s total export picture normally averaging over 20 percent of domestic exports.

The point then is that CARICOM could constitute a far more attractive market for Central America than is currently imagined and Belize would be able to play an important linkage role between both sub-regions in a production sense, as a merchandise trading entrepot and more generally in regard to related service sector requirement. The development of the communications and transportation infrastructure linking Belize to Central America would obviously enhance such possibilities.

A final point needs to be made concerning the various ways trade integration with Central America could be undertaken. Three possibilities are envisaged.

The first, requiring the highest level of political commitment, would be to join CACM, it being understood, however, that this could only occur if Belize were granted a distinct status from the other members. This is necessary, in the first instance, because the phasing-in of Belize’s trade liberalization with the rest of CACM would need to take account of prior commitments to CARICOM, as well as Belize’s disadvantaged circumstances as far as export possibilities are concerned, a fact which has merited it special treatment within CARICOM.

Belize would also have to be allowed to comply with the CARICOM schedule for phasing in the CET, which would become synchronized with the current Central American floor and ceiling levels only by the year 2000 for Belize, since it was accorded a special dispensation. The extent to which variations exist within the respective CET structures of CARICOM and CACM must await further study, but there appears no a priori reason preventing the operation of differential CET levels for Belize and other Central American countries within a wider CACM framework during a transition period. The phasing in of trade preferences would have to be negotiated. It would also be important to determine what other minimum CACM membership requirements would have to be met by Belize beyond commitments in the area of trade liberalization.

The second possibility would be for Belize and the Central American countries, singly or collectively, to enter into a trade and investment agreements outside the CACM framework, perhaps along the lines of agreements currently being negotiated between individual Central American countries and Mexico. This option would of course obviate the CET anomaly and avoid possible political and administrative complications arising from dual membership in integration bodies. It would also offer more flexibility for individual Central American countries to proceed depending on their levels of interest.

A variant of this would be the negotiation of partial scope agreement of the type common within the ALADI framework, which could constitute another option for increasing trade between Belize and particular Central American neighbors. Such agreements normally cover a very limited list of products and can be of a reciprocal or non-reciprocal nature. Obviously this option would be the least controversial because of the relatively low level of political commitment it would entail.