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CARIBBEAN COMMUNITY AGRO-ECONOMY AND THE GATT/WTO RULES ON AGRICULTURE: IMPERATIVES FOR SUBREGIONAL GROWTH AND DEVELOPMENT

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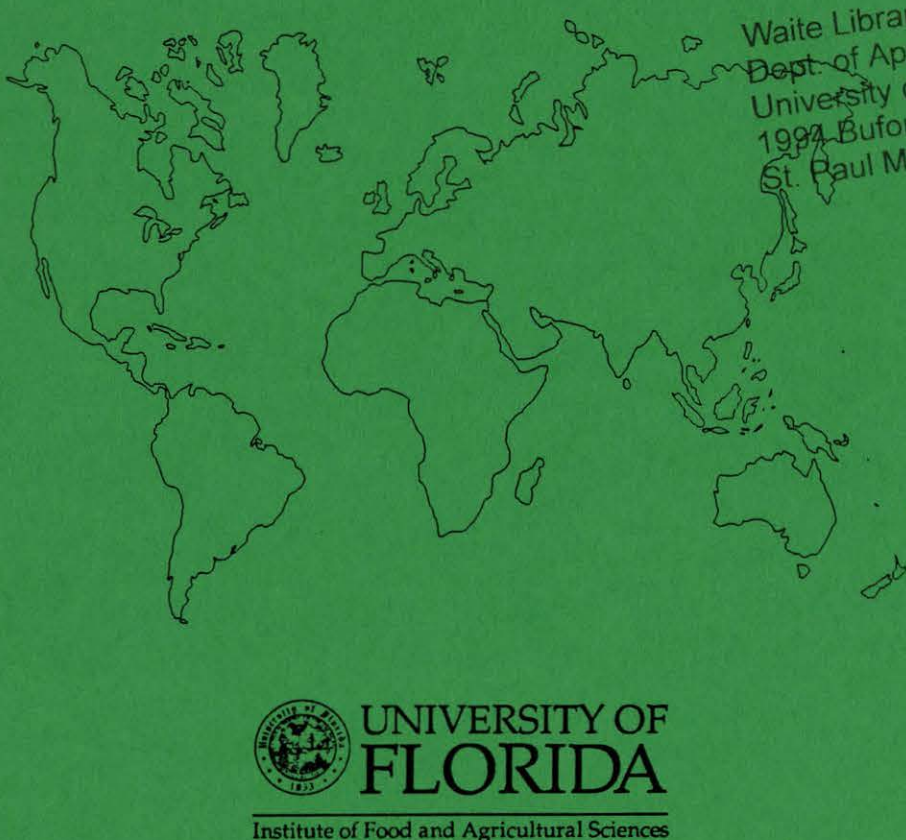

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ABSTRACT

This paper addresses the imperatives for accelerated growth and development in CARICOM countries, within the context of an evolving "new economic order", which has been manifested in the signing of the accord to the GATT/WTO Uruguay Round of Negotiations in April 1994. Against the backdrop of tensions, the Uruguay Round accord brought closure on a number of major trade reform issues. The accord, inter alia, aims for: 1) greater liberalization of trade, including agricultural trade, 2) consolidation of measures affecting import access and export competition under strengthened and more operationally effective rules, 3) monitoring, and enforcement of appropriate multilateral economic behavior, and 4) a competitive environment, by increasing discipline in the use of direct and indirect subsidies and other distortions to agricultural trade. This paper develops a conceptual economic framework which we consider relevant and enlightening for analysis of the GATT/WTO rules, as they relate to CARICOM. A descriptive, analytical and diagnostic approach is then applied in an attempt to identify opportunities and challenges facing CARICOM countries as they embrace market oriented policies and increase their participation in international trade. We argue that in the short run, CARICOM countries can still operate under the present status quo, based on the explicit recognition given by GATT/WTO to their special adjustment constraints. These countries must, however, pursue major new imperatives for growth and development in anticipation of the full effect of the new rules. Consistencies and inconsistencies between CARICOM trade rules/behavior and those of the GATT/WTO are identified. Also, suggestions are made regarding the adoption of appropriate structural and behavioral economic imperatives that appear to offer potential for strategically repositioning and reinserting CARICOM's agro-economy in the new economic order.

Key words: CARICOM, GATT/WTO, Trade liberalization, Welfare Gains, Regional Development, Policy Options.

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INTRODUCTION

A liberal trade regime is the rapidly evolving global economic order. The Uruguay Round of the GATT/WTO accord symbolizes this trend. Under a liberal trade regime, the dominant facilitating economic mechanisms are: (1) reciprocal multilateral trading arrangements; (2) market-driven economic imperatives and performance-based results; and (3) private sector-led economic initiatives. From an economic perspective trade liberalization can be defined in terms of any change which makes a country's trade system more "neutral". By convention, an export promotion trade system is defined as more open (liberal) and trade neutral than an import substitution system. Further, trade neutrality does not rule out domestic or trade interventions (Rajapatirana, 1996; Bhagwati, 1988). This type of economic regime defines the context in which the Caribbean Community and Common Market (CARICOM), must actively seek and implement pragmatic trade relationships that are optimal with respect to their growth and development objectives.

Paper presented at the Twenty-Second West Indies Agricultural Economics Conference, August 27-30, 1997, Barbados, West Indies. This paper reports on one dimension of a set of research issues being addressed under the terms of a Memorandum of Understanding among the Food and Resource Economics Department at the University of Florida, the Department of Agricultural Economics and Extension at the University of the West Indies, Trinidad campus and the Caribbean Agricultural Research and Development Institute, Head Quarters, Trinidad.

The general objective of this paper is to identify opportunities and challenges facing CARICOM countries[1] as they embrace market and private sector led policies, and seek to increase economic participation in liberalized multilateral trade relationships. Through an appropriate conceptual framework, the paper attempts to apply a "development/welfare gains" perspective to CARICOM trade relationships. This perspective is applied via a descriptive, analytical and diagnostic approach with the objective of extracting seeming consistencies or inconsistencies between the GATT/WTO rules on agriculture and those of CARICOM. Finally, the paper suggests pragmatic economic adjustment imperatives that might be necessary to strategically reposition CARICOM countries in a liberalized global economy.

Following this Introduction, Section one seeks to develop the conceptual framework. Section two examines the salient characteristics of CARICOM agro-economy, in an attempt to synthesize trading rules/behavior that have undergirded the historical agriculture and related trade patterns in the subregion. Section three discusses the 1994 GATT/WTO Agreement on agriculture. The fourth Section attempts to synthesize the salient issues raised in the preceding sections and identify consistencies or

[1]**CARICOM** countries include: Antigua and Barbuda, Bahamas (a member of the Community, but not the Common market), Barbados, Belize, Dominica, Grenada, Guyana, Montserrat, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Trinidad and Tobago and Suriname. **Associate Members** are: British Virgin Islands and Turks and Caicos Islands. **Observer States** are: Anguilla, Dominican Republic, Netherlands Antilles, Puerto Rico and Venezuela.

inconsistencies between CARICOM subregional rules on agriculture and those of the 1994 GATT/WTO Agreement. Section five provides an assessment on how the perspectives gleaned in Section four might impact the economic growth and development objectives of the subregion. Section six, the final section, summarizes the arguments and offers some concluding observations.

I. TOWARD AN APPROPRIATE CONCEPTUAL FRAMEWORK

Gains From Trade vis-a-vis Welfare Gains

Conventional (free) trade theories (viz., the classical (Ricardian) and the neoclassical (Heckscher-Olin-Samuelson) versions), explain trade in terms of efficiency gains accruing to countries which specialize according to their comparative advantages. Trade specialization then leads to a higher level of aggregate output, and enhanced consumption levels (Chacholiades, 1978). These conclusions are predicated on the assumption of a purely competitive system, central to which is the notion of the absence of trade interventions and/or restrictions.

The normative dimension of conventional trade theories that links efficiency gains from trade to welfare gains is tenuously established but more often than not uncritically asserted in the conventional trade literature. Consequently, the strongest statement that could be gleaned from the conventional trade literature regarding welfare gains is the notion that free trade[2]

[2]Technically, free trade and liberalized are not equivalent concepts, although they are usually used as such in the literature. Liberalized trade is technically defined in terms of an open

is, (1) ***potentially*** better than no trade and (2) free trade could ***potentially*** make everybody better off. However, as pointed out by Chacholiades (1978) ***potential*** is not synonymous with ***actual*** welfare gains.

In the last decade New International Trade Theories (NITTs) have emerged and have cast doubt on the notion that observable trade patterns can be explained solely by comparative advantage (Helpman and Krugman, 1985). These NITTs cogently establish the idea that in a world of imperfect competition, countries specialize and trade, not only on the basis of differences in factor intensities (comparative advantage), but also because increasing returns are an independent force leading to geographical concentration of production of each good. In such a second-best world, government intervention can, in principle, improve on purely market-determined outcomes (Brander and Spencer, 1985). Two specific areas for intervention suggested by the NITTs are:

(i) Strategic trade policy. The argument here is that under some circumstances a government, by supporting its firms in international competition, can tilt the terms of oligopolistic competition to shift excess returns from foreign to domestic firms (Brander and Spencer, 1985).

(ii) The second argument is an old idea that has become more focussed, elegant and pragmatic via recognition of the differential economic potentials of different industries in the context of the old infant industry argument. The argument supports the idea that government policy should favor

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export-oriented system, driven by an incentive system that brings about equivalence between the Effective Exchange Rate on Exports (EER_x), and the Effective Exchange Rate on Imports (EER_m). This equivalence can be attained by public policy intervention. On the other hand, free trade denotes the absence of policy intervention.

industries that yield positive externalities.

For developing countries, trade according to comparative advantage was interpreted to mean specialization in primary commodities. However, prices of primary products have been following a downward trend, moving from an index of 100 in 1960 to 55 in 1991 (OECD,1992). This has led to balance of payment deficits and increasing international debt for developing countries. It has also reinforced two difficulties with the specialization argument, viz., fixity of resources in agriculture (Johnson and Quance, 1972), and the inability to change specialization in tandem with the preference and technologically derived shifts in the importing countries. These difficulties have led to a tendency to "freeze specialization" patterns (Ropke, 1994, p.15), which can have detrimental effects on countries that specialize in the "wrong" products. Consequently, if this pattern is not broken, "free trade" can become "forced trade".

The discussion presented so far serves to inform the identification of three key structuring elements of a conceptual/analytical framework for examining the GATT/WTO rules on agriculture and those of CARICOM, relative to the subregion's development objectives. These are:

(i) The structural characteristics of CARICOM countries;
(ii) Incentive-neutral liberalizing trade interventions: the case of strategic trade and industry externalities; and
(iii) Productivity and international competitiveness nexus.

Structural characteristics of CARICOM countries

CARICOM countries are characterized by diverse structural parameters (size, structure of the economy, history, insularity, geography, stage of development, etc.,), the combination and intensity of which determine the uniqueness of these small island states (SIDS). Developing countries have been recognized in the GATT/WTO regime as a *homogenous group* (WTA/GATT, 1994). The expectation is that countries which follow the GATT/WTO principles would be rewarded with efficiency and welfare gains. However, to the extent that in the zealous enforcement of GATT/WTO rules there might be a tendency to loose sight of the uniqueness of CARICOM countries, this might exacerbate the developmental problems of these countries.

Incentive neutral liberalizing trade interventions: the case of strategic trade and industry externalities

The real world is one of trade interventionism or managed trade, not free trade. Under the new GATT/WTO regime, the issue is not about the cessation of managed trade, but rather the degree to which it is managed consistent with increased liberalization.

Within the CARICOM subregion, intervention policy options would include elements of strategic trade and/or economic externality initiatives as suggested by the NITTs. However, neoclassical theory of commercial (trade) policy asserts that the first-best policy intervention in the case of a domestic distortion (or market failure) should be a domestic intervention. On the other hand, export taxes and export subsidies are justified when there is clearly a foreign distortion or market failure (Bhagwati, 1989; Lal and Rajapatirana, 1987). This "specificity rule", (Kindleberger and

Lindert, 1978, p. 136), is instructive, but must be juxtaposed against the inherent difficulty of clearly isolating the domestic and external sectors in the small, highly open and undiversified CARICOM economies (USAID RDO/C, 1988), where the distinction between domestic and external sector distortions becomes increasingly blurred. In such situations, policy interventions may have to be eclectic, in the sense of a mix of trade and domestic policy interventions.

Productivity and international competitiveness nexus

The global liberalization of the world trading system and its attendant potential for erosion of preferential arrangements, suggest sensitivity to the notion of international trade competitiveness. In this paper, the assessment of international competitiveness is centered on the relative rates of productivity growth in industries (McCulloch, 1986). A useful measure of productivity is Total Factor Productivity (TFP)[3] (Ezeala-Harrison, 1995). In effect, TFP denotes the efficiency with which all inputs are used in the production process.

Welfare is intrinsic to the concept of international competitiveness, and embodies notions of developmental or welfare/social goals (Hickman, 1992; U.S. Congress, 1985). The economic dimension of international competitiveness embodies notions of efficient resource use and productivity increases for

[3] TFP is also referred to in the literature as Multi-factor Productivity (MFP).

successful participation in the international economy. Higher levels of productivity in the export industries will be externalized to non-exporting sectors as found in empirical studies by Feder (1983), thereby enhancing productivity levels in non-exporting sectors.

II. CARICOM AGRO-ECONOMY: A HISTORICAL PERSPECTIVE

Agricultural Performance

Agriculture is an important economic activity in CARICOM countries. Table 1 shows the contribution of agriculture to output, trade and employment in CARICOM countries for selected years. Table 1 also shows that food imports account for 20 percent or more of total imports in seven of the CARICOM countries.

Agricultural Support and Trade Policies in CARICOM Countries

Market Access, Export Competition, and Domestic Support

Empirical evidence indicates that considerable progress has been made in CARICOM at reducing/removing Non-Tariff Barriers (NTBs) against both intra-and extra-regional imports (Caricom Community Secretariat, 1994). However, as of 1992, import barriers in the form of Licensing, and State Owned Monopoly do exist in some countries. The main CARICOM NTB system still in place is the Oils and Fats Agreement (OFA), which is essentially a system of managed trade in vegetable oils, copra, and derivative products (World Bank, 1994). In addition to NTBs, CARICOM countries have instituted various tariffs. The nominal and effective rates of protection for

Table 1. The Importance of Agriculture to CARICOM Countries, Selected Years

Country[a]	Agri. in GDP[b]	Agri. exports in total exports[b]	Agri. food imports in total imports[b]	Labor force in agri[b]
	1993	1989	1989	1988
	------Percent------			
Antigua & Barbuda	4	15	25	9
Barbados	7	40	19	7
Belize	20	79	24	37
Dominica	27	76	26	36
Grenada	13	92	27	29
Guyana	28	58	5	23
Jamaica	7	21	14	28
St.Kitts & Nevis	8	42	20	33
St.Lucia	12	70	24	30
St.Vincent & Grenadines	14	76	25	30
Trinidad & Tobago	3	6	13	8

a. Countries for which data are available.
b. Most recent year available.
Source: Economic Commission for Latin America and the Caribbean (ECLAC). 1994. *Selected Statistical Indicators of Caribbean Countries*. Vol. VII. Trinidad and Tobago.

four CARICOM countries are shown in Table 2.

The most significant coordinated economic policy undertaken by CARICOM countries aimed at accelerating sub-regional trade competitiveness, has been the implementation of the Common External Tariff (CET). The various categories of commodities and tariff rates covered by the CET are shown in Table 3. By 1998 most categories of commodities would be subjected to a tariff range of 5-20 percent. The exceptions to these tariff rates are agricultural products (with a 40 percent rate), agricultural inputs and other sensitive goods (zero percent).

Table 2. Nominal and Effective Rates of Protection, Selected Countries (Percentages)

	1981-83	1984-86	1987-89	1990-92	1993
			NRP[a]		
Barbados	58.0	54.7	49.0	68.3	n.a.
Guyana	113.3	154.7	118.3	32.0	16.0
Jamaica	85.3	56.0	48.0	49.0	47.0
Trinidad & Tobago	77.0	87.0	83.7	71.7	58.2
			ERP[b]		
Barbados	222.7	210.3	188.0	263.0	n.a.
Guyana	340.0	464.0	354.7	96.0	48.0
Jamaica	255.7	168.3	144.0	147.0	141.0
Trinidad & Tobago	215.7	243.7	211.3	200.3	162.0

a. Calculation of the NRP is based on average tariff and surcharge levels, with a rough adjustment for the effects of non-tariff barriers and the black market premium. b. Calculation of the ERP is based on an assumption that domestically produced import substitutes have an average value-added of 30 percent.
Source: Gonzales, A.P. 1993. *Trade Liberalization, Growth, and Employment in Caricom*. Paper presented at Conference on Trade liberalization, Growth and Employment in the Caribbean Basin. September, 8-9. Washington D.C.

In contrast to the export incentives given to the non-agricultural sectors, traditional agricultural exports have been directly and/or indirectly taxed in CARICOM countries. Despite recent reforms in some policy areas, a 1994 World Bank study suggests that significant export taxes remain in most CARICOM countries (World Bank, 1994). However, the fragmentary nature of the data presented in that study suggests the need for further research in this area.

Available empirical data suggest that CARICOM countries have consistently provided various forms of support or incentives for their domestic agriculture (Bourne, Rankine, et al, 1987). These

Table 3. CARICOM CET Rates, 1992-98

Categories	For the Period 2/1/91-1/1/93	For the Period 1/1/93-12/31/94	For the Period 1/1/95-12/31/96	For the Period 1/1/97-12/31/97	From 1/1/98
	-----------------	Percentages	-------------------		
Non-competing inputs:					
Primary	0-10[a]	0-5	0-5	0-5	0-5
Intermediate	0-10[a]	0-5	0-5	0-5	0-5
Capital	0	0-5	0-5	0-5	0-5
Competing primary inputs	30	20	15	10	10
Competing capital inputs	30	20	15	10	10
Selected export	30	20	15	10	10
Competing Intermediate inputs	30	25	20	15	15
Non-Competing final goods	30	25	25/30[b]	20/25[b]	20
Agroindustry	45	30/35[b]	25/30[b]	20/25[b]	20[b]
Garments	45	30/35[b]	25/30[b]	20/25[b]	20[b]
General Manufactures	45	30/35[b]	25/30[b]	20/25[b]	20[b]
Sensitive Goods					
List A		----Suspended Rates ----			----Deleted---
List B		Suspended Rates (LDCs)			----Deleted---
List C		---------------Minimum Rates--------------			
List D		Suspended Rates (LDCs)			----Deleted---
Safety		0	0		----Deleted---
Cost of Living		0-20	0-20		----Deleted---
Socio-econ & cultural		0-20	0-20		----Deleted---
Agriculture		40	40	40	40
Agriculture Inputs		0	0	0	0

a. Zero rates for LDCs
b. The lower of the two rates refers to countries implementing the trade reform on a fast-track basis,i.e. Jamaica, St. Lucia, St. Vincent, Antigua, & Guyana.
Source: McIntyre, A. 1993. *A Paper on Regional Trade Policy*. OECS Secretariat.

can be broadly categorized as follows:

(i) Commodity price policies
(ii) Input price policies
(iii) Credit, research, education and extension

Some General Observations Relating to Trade and Economic Reforms in CARICOM Countries

In recent years CARICOM countries have implemented economic reforms which have led to market-determined exchange rates, reduction of fiscal deficits, privatization of government owned enterprises, removal of various price controls and the acceleration of the trade liberalization process (Bernal, 1994; Caricom Community Secretariat, 1994). These policy reforms represent a radical departure from the inward-looking development strategies which these countries favored a decade and a half ago.

The CARICOM subregion currently conducts trading activities primarily with the US under the Caribbean Basin Initiative (CBI), and the Generalized System of Preferences (GSP), and with the EU under the LOME/African-Caribbean-Pacific (ACP) preferential arrangements. Recent developments in multilateral trade relations raise concerns about the longevity and even the relevance of non-reciprocal trade relationships of which CARICOM have become accustomed. The CBI programs are under threat from NAFTA and the possibility of the formation of a Free Trade Area of the Americas (FTAA). CARICOM's trade with the EU are under threat because:

(i) NAFTA type reciprocal free trade arrangements and other nonreciprocal unilateral concessions have been arranged between the EU and other countries, especially those in Latin America and Central America (Nurse and Sandiford, 1996); and

(ii) As the EU divert its attention to Eastern Europe, less priority, aid and investment are accorded to CARICOM (Tincani, 1996).

Preferential trade agreements and the complacency which they engender, will not be a part of CARICOM's future trade. The regional group has to look for and optimize on available options consistent with their own development objectives. Such options must focus on the creation of a dynamic export sector that is sustainable without trade preferences.

III. THE GATT/WTO AGREEMENT ON AGRICULTURE

Main Elements in the Agreement on Agriculture

The GATT/WTO Uruguay Round Agreement on Agriculture (hereafter referred to as the Agreement) relates to three main areas: (i) Market access; (ii) Export competition; and, (iii) Domestic support.

Market Access

The binding concessions in the GATT/WTO rules on market access are made with regards to reduction of tariffs, tariffication of non-tariff import measures, and allowable exceptions under the Special Safeguard Provisions. With 1986-88 as the historical base period, these new tariffs, along with existing ones, are to be reduced by an arithmetic average of 36 percent for industrialized countries (over six years) and 24 percent for developing countries (over ten years). A minimum tariff cut of 15 percent for each product was allowed. In addition, there are Special Safeguard and Special Treatment Provisions in the Agreement which allow contracting parties to temporarily suspend, withdraw or modify their commitments.

Export Competition

Some of the significant reduction disciplines of existing subsidies are: (1) over the six year (1995-2001) implementation period (ten years for developing countries) from the 1986-90 base, budgetary expenditures on export subsidies are to be reduced by 36 percent (24 percent for developing countries); (2) subsidized exports are to be reduced by 21 percent (14 percent for developing countries); (3) reductions are to be made in equal annual installments, with limited flexibility allowed in the second through the fifth year, with full compliance in the final year; and (4) developing countries' subsidies on marketing costs, internal transport and freight charges for agricultural exports are exempted, and food aid transactions are to be governed by FAO principles of surplus disposal (OECD,1995).

Domestic Support

Domestic agriculture support reduction commitments are expressed and implemented in terms of "Total Aggregate Measurement of Support" (AMS) and "Annual and Final Bound Commitment Levels" (FBCL). The main rule change in the case of domestic support is to define specific policies meeting certain "Green Box" criteria, which are deemed to be minimally trade-distorting and are not subject to payments reduction. They include: research, extension, marketing and promotion, inspection; food security stocks, domestic food aid, crop insurance, income-safety-net schemes, disaster payments, retirement programs, structural adjustment programs, environmental programs; and "decoupled" income support. The base period AMS, (1986-88), is to be reduced by 20 percent, (13.3 percent for developing countries), over a period of six years (ten years for developing countries). For developing countries, support deemed to be minimally trade distorting and product support not exceeding 5 percent of the value of production, as well as support aimed at encouraging agricultural and rural development, investment subsidies, and input subsidies are exempt from the AMS (OECD,1995).

Some General Observations on the GATT/WTO Rules on the Agreement

The various provisions and clauses of the WTO/GATT Rules, and the way the Rules were specified in the Agreement, allow some flexibility in the short run for countries to continue, if they so wish, their pre-Uruguay Round policies in agriculture. In the area of market access and minimum access commitments, for example, empirical studies by Hathaway and Ingco (1996) indicate relatively little liberalization, and project only modest trade expansion for most products in most countries. Further, with respect to exports subsidies, the authors state:

> With trade at current levels, subsidized exports can account for a third or more of trade for beef and veal, wheat, pig meat, and vegetable oil. Over a fifth of the trade in poultry and course grains can still be subsidized. This is a long way from a non distorting trading regime (Hathaway and Incgo, 1996, p.54).

IV. CARICOM AND GATT/WTO AGRICULTURE TRADE RULES: SYMMETRIES, ASYMMETRIES

Juxtaposition of CARICOM and GATT/WTO Rules.

At a general level there appears to be a number of areas in which the GATT/WTO and CARICOM Agreement rules are consistent with each other. In particular, liberalization of trade, and the emphasis on competitiveness through the reduction and/or rationalization of subsidies and other forms of protection for local agricultural producers are espoused by both. On closer analysis, however, there are areas in the GATT/WTO Agreement that are major causes of concern for CARICOM. These are dealt with under: (1) market access and preferential trade arrangements for agriculture, and (2) domestic support.

Market Access and Preferential Arrangements

Yamazaki (1996) provides some estimates regarding the extent to which the GATT/WTO, by reducing the MFN[4] rates, is likely to reduce the benefits accruing to developing countries from the preferential schemes offered by the EU, USA and Japan. Yamazaki (1996) estimates indicate a total reduction of potential benefits due to the GATT/WTO Round commitments of US$ 632 million, from US$ 1853 million to US$ 1221 million. This represents a 34 percent reduction of the pre-Round benefits.

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[4]The Most Favored Nation (MFN) clause of a commercial trade treaty is a binding contract by the signatories to confer upon each other all the most favored trade concessions that either may grant to any other nation subsequent to the signing of the agreement.

A number of inferences relevant to the CARICOM sub-region can be made from Yamazaki's estimates. First, the potential erosion in trade preference margins for Central America and the Caribbean margins is relatively small (19.1 percent) compared to the other regions. However, in absolute size, these losses are significant, given the low income levels and the importance of preferential trade in total trade for many of these countries. Another observation is that Yamazaki's approach does not quantify the benefits of preferential trade arrangements that accrues from higher and stable prices compared to world prices, and the fact that preferential schemes are non-reciprocal, and are usually established as a package of economic benefits to the preference-receiving country.

An additional area of concern for CARICOM relates to the GATT/WTO tariff reduction commitments for agriculture. The GATT/WTO requires that developing countries reduce tariffs on agricultural products by 24 percent over a ten year period beginning in 1995, with a minimum tariff cut of 15 percent for each product allowed. However, the CARICOM CET stipulates a constant 40 percent tariff on agriculture (Table ~~4~~ 3). It would appear, therefore, that this CET rate would be in violation of the GATT/WTO rules and if challenged, would exacerbate the fear that CARICOM agriculture would be exposed to external forces without the requisite domestic protection. Our preliminary assessment of this situation indicates that this fear might be more apparent than real, a point which is elaborated in a later section.

One final aspect of the Agreement relates to the GATT/WTO disciplines on Sanitary and Phyto-Sanitary Measures (SPM) and other Technical Barriers to Trade (TBT). The GATT/WTO rules stipulate that technical measures should not constitute barriers to international trade, or be applied in an arbitrary and discriminatory manner (WTA/GATT, 1994). However, as Thornsbury, et al. (1997, p. 1) point out:

> while it is potentially constructive to have disciplines on technical barriers in place, their formal existence does not guarantee that greater discipline will be imposed on international use of technical trade barriers.

Many developing countries make the claim that the disingenuous use of technical measures can be a non-transparent means of creating numerous obstacles to the international exchange of agricultural goods (Thornsbury, et al. 1997).

Domestic Support for Agriculture

Historically, CARICOM has been a net importer of food and feed grains. Trade liberalization poses important implications for CARICOM's food security objectives. The Food and Agricultural Organization of the UN (United Nations, 1995) has recently completed its initial quantitative assessment of the impact of the GATT/WTO Round on major agricultural markets. The total price increase expected in the world market for main food commodities by the year 2000 ranges between 0 and 41 percent (Table 4).

The price changes in Table 4 were used by the FAO to project the food imports for developing countries. For the Latin America and Caribbean group, the overall food import bill is projected to increase by 58.8 percent, from US$8 billion in the base year (1987-89) to US$12.7 billion in 2000, of which US$300m is attributable to the GATT/WTO Uruguay Round. The ability to deal with these projected increases in food imports depends in part on the trade balances of these countries. The FAO study reports that for Latin America and the Caribbean, the trade balance in agricultural commodities is projected to increase from US$20.4 billion in 1987-89 to US$28.8 billion in 2000, of which US$2.4 billion is due to the GATT/WTO Round effect. It must be emphasized, however, that this improvement in agricultural trade balance is unlikely to benefit those countries with limited capacity to generate and sustain higher rates of growth in agriculture sector productivity.

V. GROWTH AND DEVELOPMENTAL IMPERATIVES: A CARICOM ECONOMIC AGENDA

Some of the structural characteristics of CARICOM countries, such as size, insularity and geography, have to be taken as given. Others, such as the structure of the production system, marketing and trading systems, institutional and financial arrangements, etc, can be influenced and changed with appropriate policies. From the perspective of this paper, "appropriate policies" would constitute those interventions that are cognizant of the importance of incentive-neutral liberalizing interventions, and the productivity and international competitiveness nexus.

A key argument of this paper is that there are distinct possibilities for intervention in agriculture and agricultural trade which are GATT/WTO legal. As part of its economic agenda, it is imperative that CARICOM take a proactive position in becoming informed about these GATT/WTO legal political economy intervention components. Further it should seek in the short run to utilize such

Table 4. Projected Percentage Change in Real World Food Prices for Selected Commodities by the Year 2000 (1987-89 = 100)

Commodity	Baseline	GATT/WTO effect	Total effect[a]
	-----------Percent-------------		
Wheat	-3	+7	+4
Rice	+7	+7	+15
Maize	+3	+4	+7
Millet/sorghum	+6	+4	+10
Other grains	-3	+7	+5
Fats & Oils	-4	+4	0
Oilmeal proteins	+3	0	+3
Bovine Meat	+6	+8	+14
Sheep meat	+3	+10	+13
Pig meat	+13	+10	+24
Poultry	+5	+8	+14
Milk	+32	+7	+41

a.The total does not necessarily equal the two effects.
Source: United Nations. 1995. *Impact of the Uruguay Round on Agriculture*. *CCP:95/13*. Food And Agricultural Organization (FAO). Rome.1995).

components in a manner consistent with regional growth and developmental imperatives. However, CARICOM must also examine its growth and development imperatives within a dynamic and longer term perspective.

One area in which CARICOM can exercise GATT/WTO legal policy initiative is in the strategic implementation of the GATT/WTO rules. First, under market access rules, there are the clauses under Special Safeguard, Food Security or similar dispensations available to developing countries that CARICOM can in fact invoke.

This is especially important in the context of the CET. It would appear that the existing CET on agriculture is in violation of the GATT/WTO tariff reduction rule. However, the CET rate could possibly remain GATT/WTO legal if CARICOM can effectively invoke the special and differential treatment clauses of the GATT/WTO.

Second, the GATT/WTO market access rules require that tariffs be reduced by an arithmetic average of 24 percent. Since the tariff reduction commitments are unweighted, it is quite possible for relatively large tariff reductions on little-protected products be combined with the minimal tariff cuts on the sensitive products which have been protected with higher tariffs.

Third, under market access and domestic support rules, the GATT/WTO calls for a 24 percent tariff reduction and a 13.3 percent reduction in AMS over ten years. This means that potentially 86 percent average tariffs and 86.7 percent of AMS currently given to agriculture will still remain after the current tariff reduction commitments have been made.

Finally, specifically under the "Green Box" component of domestic support, CARICOM countries can exercise policy initiatives in a number of areas which are crucial to agricultural development. However, direct price support will be allowed only if CARICOM countries have indicated in their respective country schedules that such support was given to their agricultural sectors.

An important area of concern is the liberalization process currently undertaken by many countries and the pressures for reciprocal trade. The potential reduction of the MFN rates combined with the expectation that these preferences are short lived, underscores the need for CARICOM producers to pursue international competitiveness as the basis for sustaining their presence in these markets. In the case of the EU preferential market, long before the GATT/WTO Round, the development philosophy underlying the EU was aimed at aligning their domestic economic policies with those of multilateral lending agencies (Gonzales, 1995). This affects the basis on which prices are determined and in particular, the accent on efficiency within the EU itself would suggest a reduction of internal subsidies which are linked to import prices.

In the short run[5], CARICOM may be able to strategically manoeuver in the liberalized global GATT/WTO regime. However, these short-term adjustment policy initiatives should not be the basis for longer term dynamic and more sustainable growth and developmental initiatives. In the first place, although the first phase of the GATT/WTO reforms ends in 2005, the agricultural agreement calls for discussions on the need for further reforms in 2000. Also, of critical importance in the long run for CARICOM is the force of the MFN clause which is being invoked as the GATT/WTO rules are consolidated.

Within the growth and developmental imperatives in the CARICOM subregion, two additional points must be noted. First, a key consideration is not intervention *per se* (strategic or otherwise), but rather the salient characteristics or quality of intervention

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[5]For purposes of this study, the short run refers to the first ten-year commitment phase of developing countries to the GATT/WTO rules, ending in 2005.

(i.e. selectivity of instruments/mechanisms and the quality of government intervention) (Rajapatirana, 1996). In other words, the levels of interventions will have to be timely, focussed, and less arbitrary than before. Within the context of CARICOM, Harker (1995) addresses liberalization issues within the context of the most desirable macroeconomic framework for facilitating such an initiative. He points out the misconception that in a liberalized environment, markets will obviate the need for intervention, thereby underestimating the need for timely intervention mechanism.

Second, the objective of interventions must be to increase international competitiveness through direct productivity enhancement initiatives, rather than to directly increase market shares. Productivity and international competitiveness also impact on the direction and rate of liberalization. In addition, productivity brings to the forefront the issue of diversification. In this regard, evidence from Florida and the US shows that increases in agricultural diversification lead to reduction in multifactor productivity unless appropriate research is undertaken to offset the decline (Habasch, Langham and Emerson, 1993). This observation underscores the need for CARICOM to actively pursue high quality strategic/selective research and development policies for its agricultural sector as it pursues international competitiveness.

VI. SUMMARY CONCLUSIONS AND POLICY IMPLICATIONS

Free trade is not synonymous with liberalized trade. The former is based on the neoclassical model of a perfectly competitive marketing system and excludes policy interventions. A liberal trade regime implies a world of imperfect competition and is consistent with public sector interventions. Some interventions may be distorting from a "free trade" perspective, but not necessarily from the view-point of the NITTs. To this extent, the NITTs are more consistent with the GATT/WTO, a liberalizing not a free trade regime.

The rules of the GATT/WTO have important implications for CARICOM agriculture. On the one hand, they spell out potential losses of preferential margins and market access, and reductions in protective tariffs and domestic support. These are justifiable grounds for fear and apprehension on the part of CARICOM countries. However, critical analysis of the GATT/WTO rules suggests that substantial elbow room exists for CARICOM countries to manoeuver and make adjustments as a basis for short-term survival strategy. These short-term GATT/WTO legal intervention mechanisms, however, must be seen as transitory coping policies as CARICOM proactively invest in knowledge based, longer-term sustainable strategies consistent with global imperatives of reciprocity, market-driven and performance-based results and private-sector led initiatives.

The adjustment policies must focus on (i) the productivity and international competitiveness nexus, and (ii) incentive-neutral trade interventions. These are key mechanisms with which CARICOM countries can strategically negate the more binding structural impediments confronting the subregion.

The short-term and longer-term positioning of CARICOM for increasing global competitiveness under GATT/WTO legal regime must also occur under the umbrella of hemispheric economic integration, i.e., NAFTA, FTAA, ACS, etc. The strategic repositioning of CARICOM along these lines appears logical within the context of open regionalism as a regional development model.

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