Chapter 5

U.S. Trade Policy and Foreign Development

...countries with industry capable of meeting foreign competition at home and abroad create more employment and fare better economically than countries with industries protected by import barriers producing solely for the domestic market.

The development of industries that can compete internationally has been found to maximize economic growth and thus overall employment, a concern central to the Commission's mandate. Trade liberalization in Mexico since the mid-1980s has led to growth in manufacturing and increased exports. Gains in employment and number of hours worked have been greater in export-oriented sectors than in manufacturing sectors producing primarily for the domestic market. More than a decade of research by the World Bank indicates that countries with industry capable of meeting foreign competition at home and abroad create more employment and fare better economically than countries with industries protected by import barriers producing solely for the domestic market. This is particularly true for the smaller countries of the region. The faster they can improve their economies, the shorter will be the duration of pressures to emigrate (what Mexicans call the "forces of expulsion").

The United States has been a leader in stimulating worldwide trade liberalization since World War II—a period, not by coincidence, of unprecedented economic growth for much of the world. Only the poorest countries, especially in sub-Saharan Africa, did not share this progress. Many countries such as Hong Kong, Singapore, South Korea and Taiwan, the so-called "Asian Tigers," were propelled by export development. Japan has become one of the world's great powers, largely through its trade achievements.

Encouraging Exports

The countries of the Western Hemisphere, particularly those sending unauthorized migrants to the United States, were latecomers to the philosophy of combining export-led growth with inward-looking development policies. Most have now stressed the need to export in order to earn foreign exchange to pay for needed imports and service external debt. Indeed, there has been a dramatic transformation in Latin American development policies from protectionism and state control to reliance on market forces, competition and maximum participation in the world economy.

Encouraged by the United States, exports have now become a major factor in the economies of the region. But an increase in manufactured and agricultural exports by developing countries requires access to international markets for their most competitive products to enable them to earn foreign exchange. If developing countries in the Western Hemisphere are to prosper without having to rely perpetually on foreign aid, they must earn their own way. Export policies will succeed only to the extent that economic policies in the industrial countries complement them. If sending-country efforts at export promotion are frustrated by trade restrictions, their entire development programs may falter.

The Commission recognizes that trade issues are politically and socially sensitive, especially when imports from low-wage countries compete head-on with U.S. production. The U.S. government, under these circumstances, has the dual role of protecting the jobs and living standards of its citizens and helping to create economic conditions that discourage unauthorized immigration. The balance between these two concerns is not always carefully drawn.

U.S. actions that frustrate development in migrant-sending countries ultimately encourage emigration. As these countries have shifted to competing internationally for foreign markets, they have presented the United States with a dilemma: accept either their goods or their people. The compromise that has been struck as part of the U.S. political process—to accept some goods and services from these countries, but to exclude others—has resulted in encouraging some migration. The growing competitiveness of migrant-sending countries is a genie that cannot be put back into the bottle.

Manufactured Goods

Many countries in the Western Hemisphere, like the Asian tigers before them, are emphasizing the exportation of manufactured goods. In order not to make these exports too expensive, they have lowered import tariffs and eliminated non-tariff restrictions that had previously excluded foreign inputs necessary for the export of manufactured goods. This is particularly true of Mexico since it joined the General Agreement on Tariffs and Trade (GATT) in 1986.

A key factor in the shift toward competition for international markets has been the incentive provided by depreciating overvalued currencies, thereby reducing the relative cost of migrant-sending country exports.

Although the markets of migrant-sending countries are more open now than at any time in the post-War period, U.S. exports to them have not increased substantially in recent years, largely because their debt-service burdens limit their ability to import. Their imports will rise, however, as their economies recover and resume rates of growth that prevailed before the oil shocks of the last seventeen years.

Despite U.S. programs to encourage exports from migrant-sending countries, the United States imposes explicit import quotas on a number of their products, such as textiles, apparel, steel and sugar. Other import impediments are the use of fair trade procedures related to dumping (exporting a product at a price lower than in the home market) and export subsidies. A petition by a U.S. producer seeking anti-dumping relief or a countervailing duty introduces uncertainty into the trade relationship even in the event the petition is unsubstantiated, but U.S. procedures now tend to encourage such petitions for relief against imports.

The United States should work more closely with developing countries in pressing for general trade liberalization by the industrialized countries.

Nevertheless, the U.S. market is significantly more open than those of developed countries generally. In 1987, the United States was the market for 35 percent of manufactured exports from all developing countries, and 50 percent of such exports from Western Hemisphere developing countries. The United States should work more closely with developing countries in pressing for general trade liberalization by the industrialized countries. (See Figures 5.1a and 5.1b, p. 52.) As these figures show, European Community countries and Japan together take 40 percent less than what the United States alone imports of these goods from all developing countries.

The United States encourages developing countries to export their products through a number of programs, such as the Caribbean Basin Initiative (CBI) and Generalized System of Preferences (GSP). Under items 9802.00.60 and 9802.00.80 (formerly 806.30 and 807.00) of the harmonized tariff schedules, the United States charges import duties only on the value added outside the United States to a product made with U.S. components. These provisions, in part, have stimulated the growth of Mexican maquiladora and other export-processing zones (see Co-Production Partnership discussion in Chapter 6). The benefits under items 9802.00.60 and 9802.00.80 are global, those under GSP apply to developing countries in general; CBI privileges apply only to beneficiary countries in Central America and the Caribbean. But many of the CBI countries' most competitive products are excluded from the program. For some migrant-sending countries, other U.S. import barriers, such as restrictions on sugar, may outweigh all the foregoing benefits combined.

FIGURE 5.1a
Destination of Exports of Manufactured Goods from Developing Countries, 1987

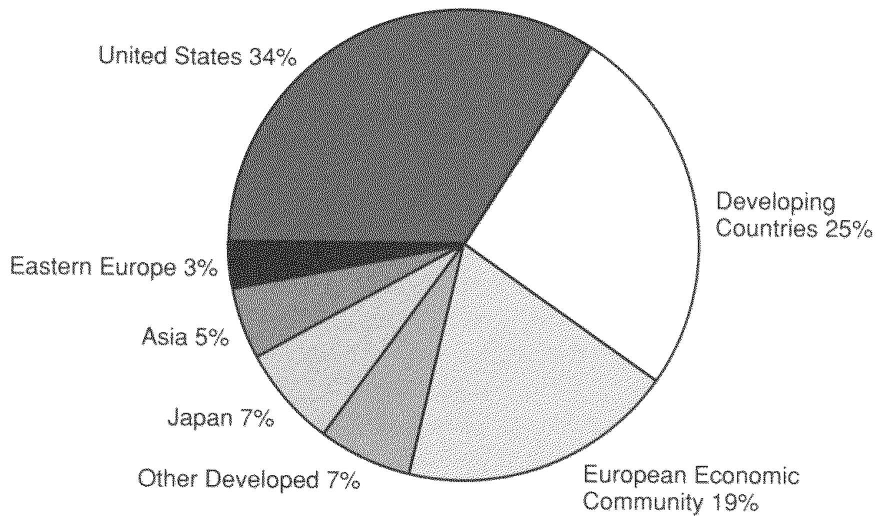
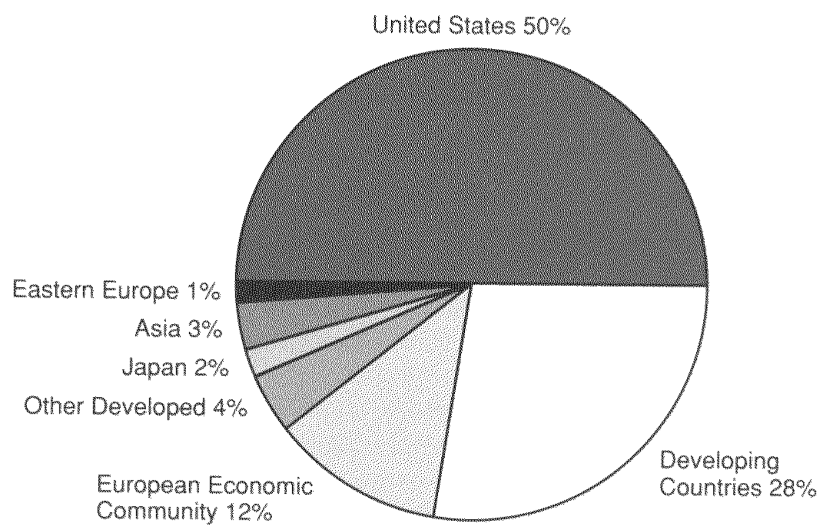


FIGURE 5.1b
Destination of Exports of Manufactured Goods from Western Hemisphere Developing Countries, 1987



Source: United Nations Conference on Trade and Development

The Uruguay Round of multilateral trade negotiations under the GATT is now in progress and scheduled to be completed at the end of 1990. The United States should make a special effort in these negotiations to reduce trade barriers that affect exports of Western Hemisphere migrant-sending countries. To a great extent, the United States has already benefitted from the unilateral lowering of barriers by many of these countries. Nevertheless, U.S. concessions should be conditioned on receiving reciprocity. This can take such forms as trade and investment liberalization, better protection of intellectual property, and further opening markets for service exports. (See Box 5.1, p. 54.)

The Commission believes that actions with respect to both CBI beneficiary countries and Mexico can be taken beyond those in the Uruguay Round to facilitate their trade with the United States. The CBI is discussed later in this chapter.

With respect to Mexico, the Executive Branch, where it has discretionary authority, should continue to be liberal in including products for GSP treatment.

Agricultural Products

The development process in Mexico and Caribbean Basin countries has resulted in large-scale rural outmigration over the past 30 years. Some migration has been directly to the United States. The bulk, however, has been in-country to urban areas, continually reinforcing migratory pressures in cities increasingly overcrowded by these influxes and the effects of urban fertility. Mexico City's population grew from five million in 1960 to 19.4 million in 1990, making it the world's largest urban center. Other Mexican cities have experienced proportionate population growth, changing Mexico into a predominantly urban society. Internal migration in the smaller countries has followed a similar though less dramatic pattern.

Mexico's rural exodus reflects several factors: (a) the initial surplus of rural residents for the jobs and land available; (b) the attraction of urban incomes three to four times higher than rural incomes (and urban incomes in the United States ten times higher than urban incomes in Mexico); and (c) national economic policies that favor urban industries over agricultural sectors. Similar factors obtain in Central American and Caribbean countries. The agricultural practices known as "slash, burn and abandon" in Central America and widespread deforestation in Haiti have exacerbated the situation. Ecologically sound practices have only recently been introduced, and are still minimal.

The Commission recognizes that the United States is limited in what it can do directly to halt or reverse these processes. But the United States can contribute indirectly, as it has over the years in many countries, through its advisory, lending and training programs in the agricultural sector and, most importantly, by improving access to its markets for sending-country agricultural products. Thus, the Commission strongly supports, and urges increases in, ongoing technical assistance being provided by the U.S. Agency for International Development (AID) and the Department of Agriculture for sending-country efforts to raise agricultural, agro-industry and non-agricultural employment in rural areas.

Box 5.1 - How Trade Negotiations are Conducted

The U.S. Constitution gives Congress the power to regulate international commerce. Actual negotiations, however, are conducted by the Executive Branch, generally under a limited grant of authority from the Congress. The main international forum for carrying out trade negotiations is the General Agreement on Tariffs and Trade (GATT), which was formed after World War II, and now has 97 contracting parties (member nations). The first principle of the GATT is the most-favored-nation clause (MFN). More directly, MFN means non-discrimination, i.e., treating all nations equally.

GATT negotiations are usually conducted in periodic "rounds," in which nations exchange concessions with each other, all subject to the MFN clause. These rounds concerned themselves at first almost exclusively with reciprocal tariff reductions. But now, industrial country import tariffs are quite low, averaging between 3 and 7 percent when weighted by imports. More recent negotiations have dealt with non-tariff measures in addition to tariff barriers. Non-tariff measures include the use of subsidies by exporting nations and countervailing duties by importing countries, dumping by exporters, government procurement programs, the use of product and health standards when they serve as a protectionist device, and customs procedures. These barriers are more difficult to deal with than tariffs because of the nearly infinite ways they can be used to limit imports.

The current round of GATT negotiations began in Punta del Este, Uruguay, in 1986 and is known as the Uruguay Round. In addition to tariffs and non-tariff measures, it seeks to reduce barriers in areas not adequately treated in previous negotiations. These include trade in agriculture and services, and to secure better protection of intellectual property in the framework of the GATT. The Uruguay Round is scheduled to be completed by the end of 1990.

Some countries are not members of the GATT. The Soviet Union is an example. Trade negotiations with these countries are thus conducted bilaterally. The United States also carries out bilateral negotiations with countries that are members of the GATT, such as Mexico and Canada, where special circumstances may exist. Thus, the U.S.-Canada Free-Trade Agreement (FTA) was negotiated bilaterally and will be submitted to the Contracting Parties of the GATT for their agreement that it complies with the provisions of the General Agreement. The FTA, like other free-trade areas or customs unions, involves preferential trade between the parties. These arrangements are permitted by the GATT if they meet certain criteria, despite the fact that they do not comply with the MFN principle. U.S. legislation couples the granting of MFN to the Soviet Union and countries of Eastern Europe to their willingness to allow emigration of their nationals, and these problems inevitably require bilateral as opposed to multilateral negotiations. Textile trade is subject to restrictions agreed in the GATT under the Multi-Fiber Arrangement (MFA), and the country-by-country restrictions under the MFA umbrella are usually worked out in bilateral discussions.

The MFN principle has been diluted in order to benefit developing countries. Thus, the United States has a Generalized System of Preferences (GSP) under which designated imports from beneficiary developing countries are admitted duty free, even when there is an MFN tariff for these imports when they come from industrial countries. Other industrial countries have their own versions of preferences for developing country imports. The Caribbean Basin Initiative (CBI) provides duty-free treatment for imports from beneficiary countries in that region, subject to exceptions specified in the legislation, even as these same imports from other countries are normally subject to MFN rates of duty. These special programs, both GSP and CBI, are unilateral privileges bestowed on beneficiary countries by the United States rather than the subject of bilateral or multilateral negotiations.

U.S trade negotiations are thus carried out in a variety of forums, depending on content and circumstances.

The Commission supports the Administration's position seeking the elimination of all trade-distorting agricultural policies. As a first step towards that goal, the United States proposed to the Negotiating Group on Agriculture in the Uruguay Round of the GATT that all quota restrictions and other non-tariff distortions be converted to their tariff equivalent; these tariffs could then be gradually reduced or eliminated. The Commission recognizes that attainment of the ultimate objective will entail a difficult negotiating process. Meanwhile, the United States should give special consideration to two commodities of critical importance to most sending countries in the Caribbean Basin: sugar and coffee.

After seven years of open markets, Congress in 1981 restored a sugar price support program to protect a relatively small number of U.S. sugar growers and processors. The program keeps prices to U.S. growers at or above 18 cents per pound by controlling imports through a quota system. The high support price has stimulated U.S. production of sugar and its substitutes, e.g., corn sweeteners. When combined with reduced consumer demand for calorics, this has led to the progressive reduction of import quotas to maintain the 18 cent price level. Accordingly, U.S. sugar imports dropped from about 4.4 million tons a year during the 1975-81 free market period to 1.2 million tons in 1989.

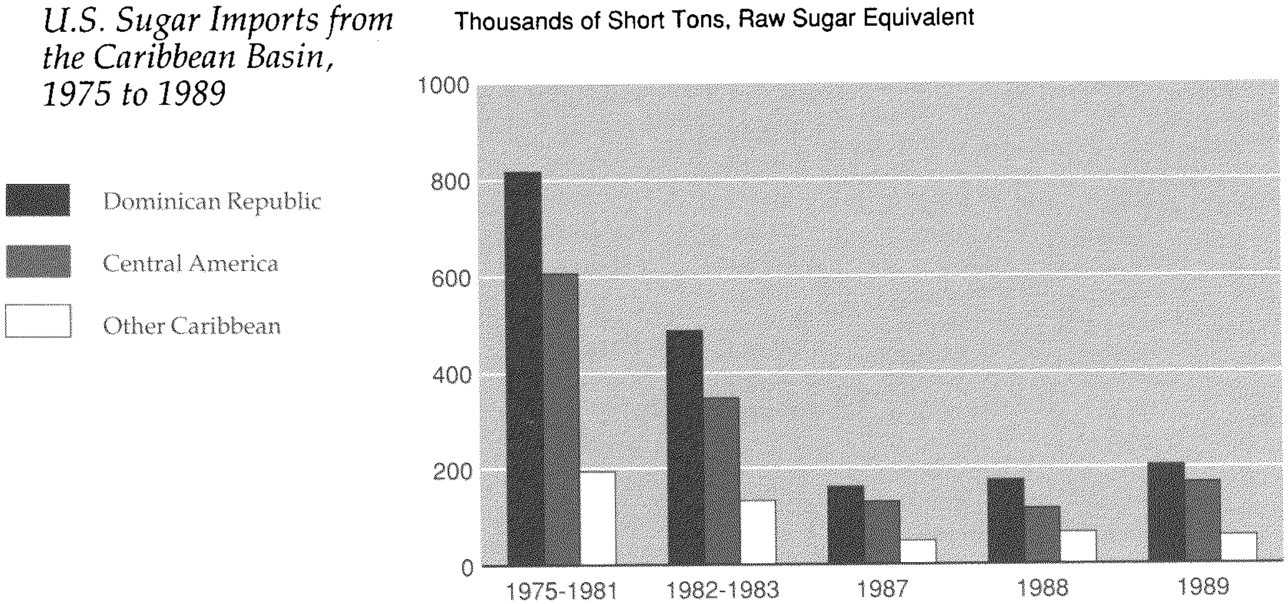
The U.S. program also depresses international sugar prices, since reduced U.S. consumption of foreign sugar has led to increased supply in the global market. To further worsen the export market for migrant-sending sugar producers, other developed countries also protect domestic suppliers. The European Community sugar program has transformed the Community from a net importer of 1.5 million tons annually in the mid-1970s into a net exporter of 2.8 million tons ten years later.

In the Commission's area of concern, U.S. imports of Caribbean and Central American sugar declined from an annual average of 1.66 million tons in 1975-81 to 442,000 tons in 1989, a drop of over 73 percent. (See Figure 5.2, p. 56.) The Dominican Republic, the largest supplier, lost almost three quarters of its quota, dropping from an average 774,000 tons to 204,000 tons.

The sugar support system is a classic use of protection benefitting domestic producers at the expense of U.S. consumers and lower-cost foreign suppliers. The latter include migrant-sending countries like the Dominican Republic, long highly dependent on sugar exports to the United States, which in the past encouraged sugar production to assure a steady supply. While the drop in quotas is now forcing these countries to begin to diversify their economies, the transition is harsh, resulting in sharply increased unemployment and, in some cases, intensification of emigration pressures.

FIGURE 5.2

U.S. Sugar Imports from the Caribbean Basin, 1975 to 1989



Source: U.S. Department of Commerce.

The Commission supports legislation before the Congress for the partial restoration of Caribbean Basin sugar quotas. Beyond this, the sugar support system should be addressed in such a way as to benefit Western Hemisphere exporters to the United States, with the objective of a phased return to a free market situation. The United States should also assess other potential uses of sugar cane derivatives, with particular attention to the use of ethanol as a less polluting fuel. Demand for ethanol may increase because of heightened environmental concerns.

With regard to coffee, the absence since July 1989 of worldwide quotas under the International Coffee Organization (ICO) has seriously affected some key migrant-sending coffee producers, at least for the next several years. Colombia and El Salvador, in particular, suffered immediate drops in export earnings as prices decreased over 30 percent, although they have since increased. Because coffee sales generate over half of El Salvador's export earnings and one third of Colombia's, such revenue fluctuations adversely affect their economic growth. They also limit Colombia's ability to cooperate in narcotics control.

The ending of coffee quotas reflected the culmination of years of disagreement between the United States and some coffee-producing countries over quotas for higher-quality (mild Arabica) coffee and discount sales to countries not members of the ICO. The ICO itself lapsed in October 1989. Spurred by Colombia and Central American producers of mild Arabicas, talks seeking a consensus for a renewed and reformed ICO began in late 1989 after President Virgilio Barco

Box 5.2 - Sugar

In order to protect domestic beet sugar and sugar cane growers, the U.S. sugar market has been regulated for many decades using a variety of techniques. In recent years, a system of temporary import quotas reinstituted in 1981 gave way to a formal quota system in 1985 under the Food Security Act. The current support system is based on a no-cost approach to the government under which import levels are fixed to maintain a domestic support price. The higher price is passed on to sugar users.

According to a 1988 Department of Commerce study, the U.S. sugar program has resulted in:

- a domestic sugar price several times higher than the free-market level;
- a cost to consumers of $3 billion annually;
- a 40 percent annual increase in imports of some sugar-containing products (e.g., candy) competing against domestic goods;
- a 40 percent reduction of the U.S. sugar refining industry; and
- the displacement of some 12,000 domestic workers.

The study notes that "about 12,600 U.S. farms benefit from the sugar program, which implies an annual subsidy in the form of higher consumer prices of almost $260,000 per farm. The sugar program imposes an annual implicit cost on consumers of $76,000 for each sugar worker, many of whom are seasonal or foreign laborers. Since sugar is an ingredient in many food items, the effect of the sugar program is similar to a regressive sales tax, which hits lower income families harder than upper income families."

The negative consequences of the program in the Caribbean Basin have been substantial. One study estimates that revenues from sugar exports declined from $544 million in 1981 to only $97 million in 1988, or by 82 percent. Between 1982 and 1988, the region lost 400,000 jobs, or about 270,000 more jobs than were gained through U.S.-sponsored programs to promote non-traditional exports. The Dominican Republic, an important source of undocumented immigrants, has lost more than $500 million in sugar export revenues since 1982. (See Figure 5.2, p. 56.)

of Colombia made a special appeal to President Bush, who promised to review the situation. **These discussions should be continued with a view to stabilizing prices.**

Economic Integration Strategies

Improved access to U.S. and other developed country markets is the key to the economic future of the area. The United States recognized this in 1983, when the Caribbean Basin Initiative (CBI) was enacted; in 1987, when the U.S.-Mexico Framework Agreement on Trade and Investment was negotiated; and again—on a grander scale—in 1989, when the U.S.-Canada Free Trade Agreement (FTA) came into effect.

Mexico is an important competitor in the world marketplace. The smaller economies of the Central American and Caribbean countries do not have that potential. The Commission strongly advocates their integration—and Mexico's—into larger trading areas.

North American Free Trade

The U.S.-Canada Free Trade Agreement (FTA) went into effect on January 1, 1989, after over 100 years of intermittent attempts at bilateral free trade. It has opened real prospects for a North American free trade area including Mexico.

Over 60 percent of Mexico's exports come to the United States (more than 80 percent excluding oil). Only about one percent go directly to Canada, although Mexican components are often embodied in U.S. exports to Canada. Thus, any diversion of Mexican trade due to the U.S.-Canada FTA would affect Mexico's critical U.S. market. The United States, with a $5.4 trillion gross national product, which is 12 times that of Canada, offers Mexico the market with the most potential for dynamic growth. The FTA not only threatens Mexican exports with the substitution of Canadian products, but calls into question foreign investment and technology that might be diverted to Canada.

The United States should expedite the development of a U.S.-Mexico free trade area.

Mexico already competes with Canada in the U.S. market in a number of sectors. Under the FTA, Canadian exporters will have a margin of tariff preference over Mexican exporters of petrochemicals, textiles and apparel, automotive products, some machinery, and steel. More importantly, Canada will be exempted from many non-tariff restrictions the United States might impose in the future. Concern about the growing U.S. tendency for non-tariff restrictions was one of Canada's main motives for agreeing to the FTA, and is potentially a major area of disadvantage for Mexico. The FTA also facilitates the flow of limited categories of temporary labor between the two countries, including professionals, skilled persons and technical personnel. As a partner in the current FTA, Canada has a keen interest in any wider North American free trade negotiations, whether they are bilateral (U.S.-Mexico) or trilateral.

Mexico has made clear its desire to negotiate a free trade agreement with the United States. As a result of the meeting in June 1990 between Presidents Bush and Salinas, preparations for negotiations on free trade are now under way between the two countries. **The United States should expedite the development of a U.S.-Mexico free trade area, and encourage its incorporation with Canada into a North American free trade area.**

Mexico has also strengthened its negotiating presence in the Uruguay Round of the GATT in the hope of lowering U.S. tariffs. And there have been bilateral negotiations between the United States and Mexico to improve Mexican access for steel and textile products, sectors in which Mexico and Canada compete head-on. Mexico and the United States have agreed to hold bilateral talks on the petrochemical sector.

The U.S. interest in a free trade agreement with Mexico is to enlarge the potential for U.S. exports, based on complementarity of production in the two countries.

Mexico seeks greater assurance of access for its products to the U.S. market. The U.S. interest in a free trade agreement with Mexico is to enlarge the potential for U.S. exports, based on complementarity of production in the two countries. The United States also has a strategic interest in Mexican economic growth and political stability. However, the Commission has serious concerns about runaway industries seeking low Mexican wages. This requires the United States to move deliberately.

When the United States and Mexico (or North America as a whole) enter into free trade, the question arises about the impact on other countries in Latin America and the Caribbean. While the issue of free trade between them and North America does not now arise, it will if Mexico is part of a North American free trade region. Some countries, particularly those in Central America and the Caribbean, will be ready to negotiate for free trade. Other countries—especially those in South America—are apt to be more cautious in their reactions, because they are not as dependent on the U.S. market. The United States should examine the effect of North American free trade on the trade of other Western Hemisphere countries in order to minimize any damage. **The United States should support the goal of wider free trade with other Hemisphere countries, but should allow any initiative to come from them.**

Accelerating the Momentum of the CBI

The Caribbean Basin Initiative, in effect since January 1984, is a unilateral U.S. tariff preference scheme intended to provide incentives for economic growth and political stability in Central America and the Caribbean. (It does not include Mexico.) The CBI was spurred by U.S. concerns in the early 1980s that floundering Caribbean Basin economies could not survive the conflicts in Central America and the vagaries of global prices for the area's key commodities. The initiative was predicated on the assumption that, with open access to U.S. markets, beneficiary countries would make appropriate economic policy reforms to expand their productive base. Its centerpiece is duty-free access to the U.S. market for 12 years (until 1995) for most products exported by the 23 beneficiary countries.*

* Antigua & Barbuda; Aruba; Bahamas; Barbados; Belize; British Virgin Islands; Costa Rica; Dominica; Dominican Republic; El Salvador; Grenada; Guatemala; Guyana; Haiti; Honduras; Jamaica; Montserrat; Netherlands Antilles; Panama; St. Christopher & Nevis; St. Lucia; St. Vincent & the Grenadines; Trinidad & Tobago.

However, a number of products for which CBI beneficiaries are competitive producers are excluded. These were textiles and apparel, certain leather goods, petroleum and petroleum products, canned tuna, and certain watches and parts. In 1986, textile products assembled from fabric formed and cut in the United States were added, and the use of U.S. Tax Code Section 936 funds on deposit in Puerto Rico was approved for investment in eligible CBI countries. U.S. bilateral economic assistance to CBI countries rose by over 50 percent by 1987, but dropped again in 1989 to 1983 levels. Most of the increase was to Central American countries (excluding Nicaragua), the Dominican Republic and Jamaica. Legislation to extend and expand the CBI has been before Congress for more than two years; both houses have approved the permanent extension of the CBI, but with other less significant improvements.

The CBI has been moderately successful. Its fundamental purpose—broadening and diversifying the region's production and export base—is being slowly fulfilled. Exports of non-traditional products, including textiles and apparel, rose 80 percent between 1983-88. These benefits were largely offset, however, by weak petroleum and coffee prices and sharply reduced U.S. sugar quotas. New investment since 1984 has been over $1.6 billion (54 percent from the U.S.). Over 70 percent of the investment has gone to Belize, Guatemala, El Salvador, Honduras, Costa Rica, the Dominican Republic and Jamaica.

The return of peace to Central America and diversion of U.S. attention to the rapidly changing scene in Eastern Europe may diminish the availability of official resources for the Caribbean Basin region. This would be most unwise and shortsighted.

Notwithstanding its good beginning, there is a widespread impression that the CBI is not accomplishing its objectives. This is largely because of factors beyond the control of beneficiary countries. Many of their most competitive products have been excluded from the CBI. Markets for traditional exports have been weak, and CBI benefits have, at best, barely offset declines in such sectors. Political instability and conflict impaired the overall investment atmosphere in Central America, locus of major beneficiaries. Finally, integration into the international market for manufactured goods or non-traditional foodstuffs is new for CBI countries; the process requires decades to take effect.

The return of peace to Central America and diversion of U.S. attention to the rapidly changing scene in Eastern Europe may diminish the availability of official resources for the Caribbean Basin region. This would be most unwise and shortsighted. So long as economic distress continues, so will potential instability on our doorstep and the flows of unauthorized migrants to the United States. It is, therefore, of continuing interest to the United States to maintain and even accelerate the momentum of the CBI and to offer its beneficiaries assurances of continued preferential market access upon which to base their economic planning.

Box 5.3 - The Lomé Convention

The European Community (EC) has long favored developing countries that were former colonies of EC member nations. The most recent expression of this relationship is the fourth convention signed in Lomé, the capital of Togo, on December 1989 by the EC and 66 countries from Africa, the Caribbean, and the Pacific (ACP countries). Lomé IV will be valid for ten years. Many of the migrant-sending countries in the Western Hemisphere are among the ACP signatories to Lomé IV, and not all of them are recent former colonies (e.g., the Dominican Republic and Haiti are not).

There are a number of differences between Lomé IV and the CBI. The most important of these is that the CBI is a unilateral grant of trade preferences by the United States to beneficiary countries in the Caribbean Basin, while Lomé IV is a negotiated convention dealing with many issues in addition to trade preferences for ACP country exports to EC countries. Thus, Lomé IV also contains long term commitments on EC development aid to the ACP countries, support for ACP structural adjustment reforms (that is, for assistance to overall economic policy of the ACP countries), and commodity support programs (known as Stabex, for commodities generally, and Sysmin, for mining products). Lomé IV contains provisions on ACP country market access to the EC for such products as sugar, rum, bananas, rice, and beef and veal. The agreement also calls for environmental, cultural and social cooperation. In the case of the United States, economic and other policy issues are discussed with CBI countries on an ad hoc bilateral basis, most importantly when the United States negotiates economic aid loans or grants. Under current U.S. aid legislation and budgetary procedures, the U.S. government cannot make commitments on aid levels beyond one fiscal year.

Lomé IV, by being contractual (rather than a one-sided grant of trade preferences like the CBI), involves the EC in a long-term obligation in return for actions taken by the ACP countries. The Commission has recommended that the CBI be transformed into a contractual arrangement (although not necessarily identical in its content to Lomé IV) in order to permit negotiation of quid pro quos in areas broader than trade preferences. One shortcoming of the CBI is that it does not cover basic economic policies of the beneficiary countries and is therefore partial in its encouragement of development. Also, by being a unilateral grant rather than an ongoing contractual arrangement, the CBI program does not entail any U.S. obligation to consult periodically with beneficiary countries to deal with mutual concerns.

In addition to its indefinite extension, the CBI should be enhanced by significantly easing its limitations on beneficiary products. Moreover, the Commission believes that the CBI, which is now a unilateral grant of benefits from the United States to beneficiary countries, should be transformed into a contractual arrangement that permits consultation and negotiation on issues broader than trade, such as aid, investment and general development policies. This arrangement would be similar to the one that exists between the European Community and 66 African-Caribbean-Pacific countries under the Lomé agreement (See Box 5.3, p. 61.) Congress should give the Administration the necessary authority to negotiate with CBI countries regarding aid levels for several years (as in the case for Lomé.) The CBI could thus encompass quid pro quo negotiations on CBI policies and not be seen merely as a handout from the United States. The World Bank, since 1978, has chaired a Caribbean Group for Cooperation in Economic Development designed to review development plans of Caribbean countries and coordinate aid donor contributions. A contractual arrangement between the United States and CBI beneficiary countries would complement the World Bank group.

The CBI could be enhanced in less sweeping ways, for example by limiting U.S. safeguard measures against CBI countries in both fair trade and escape clause cases only when imports specifically from

Box 5.4 - Escape Clause and Unfair Trade Actions

A trade negotiation in the GATT normally involves an exchange of concessions, such as the reciprocal reduction of tariffs. The objective is to have an equivalent trade benefit for all negotiating countries. In technical terms, a tariff is "bound" in the GATT when a commitment is made on its maximum level. However, countries retain the right of "escape" from a particular bound tariff when actual or imminent damage to their domestic industry as a result of its concession can be demonstrated. The escape clause is authorized both in GATT articles and U.S. legislation; a country raising a bound tariff is obligated to provide compensation by lowering other tariffs having equal trade value to the countries affected by the change.

The escape clause is used relatively infrequently. The United States, in its place, often requests exporting countries to voluntarily limit export levels when these are believed to be damaging U.S. industry. Such limitations take place outside the GATT framework and do not call for compensation.

Unfair trade refers to actions taken by a foreign country to subsidize the export of a product (i.e., providing a fiscal incentive to promote exports), or by a foreign company dumping a product in the U.S. market (i.e., selling the product at less than fair value). In these cases, if a domestic industry is damaged, the United States imposes a countervailing duty (to counteract the effect of a subsidy) or an anti-dumping duty (to eliminate the trade effect of dumping) equal to the subsidy or dumping margin. As this is written, an important dumping case is pending with respect to Mexican cement exports to the United States.

these countries cause injury to U.S. producers; and by extending duty-free treatment to CBI textile and apparel products that clearly pose no threat to U.S. producers. (See Box 5.4, p. 62.)

Revitalizing the Central American Common Market

The Central American Common Market (CACM), formed during 1958-63 by Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica, was once the most successful regional integration initiative in Latin America. Members agreed in a series of treaties to free trade among themselves, a common external tariff, and creation of a monetary clearing-house and regional development bank. Cooperation in education, communications, transportation, energy and other fields developed under the CACM framework.

CACM promoted a dramatic tenfold increase in regional trade, peaking at $1.1 billion in 1980. Industrial production grew to about 20 percent of the region's gross domestic product, more than double the pre-CACM share. But intra-regional imbalances between more developed Guatemala, El Salvador and Costa Rica and less developed Honduras and Nicaragua, exacerbated by oil price shocks, falling commodity export prices, and by the violent conflicts, political tensions and heavy external debt service burdens of the early 1980s, brought CACM to a virtual standstill. Trade fell to $462 million in 1986 as per capita GDP dropped by 20 percent. Members were unable to devote their attention to the continual negotiations and adjustments required to enhance the integration effort. Despite these serious setbacks, CACM still plays an important role in the region's economy. Regional trade has recovered about $600 million, and most of the free trade and cooperative institutional arrangements remain in force.

Central Americans had become used to moving freely among their five countries even during conflict, shopping for each others' goods and trading in local currencies through a central monetary clearinghouse. They face difficult choices in seeking to return to economic growth as peace is restored. Costa Rica has best weathered the decade of turmoil. Guatemala has begun to recover. But Honduras bends under the strain of large unassimilated refugee populations. El Salvador survives on U.S. support, has lost many of its most productive people and needs major infrastructure repair. Nicaragua's economy needs massive assistance. Among the region's first priorities is the urgent need to resettle many hundreds of thousands of displaced people.

The major expansion of intra-CACM trade in the past occurred through import substitution and was dependent on high barriers to non-CACM trade. Growth possibilities from such a strategy are exhausted. Future integration should be based on developing efficient globally competitive production not dependent on a high degree of protection. Resumption of the integration process based on this strategy is essential to Central America's economic recovery and job creation, and therefore to the alleviation of migratory pressures.

The United States and, with its encouragement, the international financial institutions and other international donors, should contribute to the revitalization of the Central American Common Market.

CARICOM - Slow in Coming Together

The 13 small English-speaking countries of the Caribbean Basin have been moving towards regional integration since 1965, when Antigua, Barbados and Guyana established the Caribbean Free Trade Association (CARIFTA). They were joined in 1968 by Trinidad and Tobago, Dominica, Grenada, St. Kitts-Nevis-Anguilla, St. Lucia, St. Vincent, Jamaica and Montserrat, and in 1971 by Belize. In 1973, twelve of the countries signed the Treaty of Chaguaramas, which replaced CARIFTA with the Caribbean Community and Common Market (CARICOM), each with a separate juridical identity. The Bahamas became a member of the Community but not the Market in 1983. The Dominican Republic, Haiti and Suriname have observer status.

CARICOM, with a combined population of 5.5 million, is a broad effort at both economic integration and cooperation in such areas as communications, education, health, transportation and foreign policy. Members did not begin to trade freely among themselves until late 1988. Even then, the eight smaller members were permitted to restrict trade in 17 products for up to three years. Intra-regional trade represents only about 12 percent of member countries' total exports, and almost half of that is in Trinidad and Tobago oil exports.

At its July 1989 meeting the Conference of Heads of Government of the Caribbean Community set July 4, 1993, as the deadline for fully activating the Common Market. Members are concerned that events in Eastern Europe, the flowering of the European Community, and the implementation of the U.S.-Canada FTA might adversely affect CARICOM's prospects. There has also been a growing sense that continued economic fragmentation is preventing individual countries from taking full advantage of U.S. trade preferences extended to them through the CBI. **It is clearly in the U.S. interest to support CARICOM efforts at integration, so long as it encourages efficient and internationally competitive production.**

Member countries also enjoy preferential treatment from Canada through the Canadian Program for Commonwealth Caribbean Trade, Investments and Industrial Cooperation (CARIBCAN) and most have preferential access to the European Community under the Lomé agreements.