

# FINAL REPORT

## Executive Summary

Trade and Economic Relations between the Caribbean Community  
(CARICOM) and the Central American Common Market

by

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## EXECUTIVE SUMMARY

i.) At the Fourth Ministerial meeting of the Caribbean Community (CARICOM) and the Central American Common market (CACM) held in March 1992 the Ministers proposed the formation of a Free Trade Area (FTA) between the two regions. This proposal surfaced in the context of the need to deepen inter-regional commercial relations as one step in the broader process of integration into the larger global economy. This study was motivated by the need to examine whether the proposed FTA is feasible, i.e. mutually beneficial from an economic standpoint, and compatible with existing trade agreements. This is especially important in light of the plethora of regional and bilateral commitments that have been undertaken by both blocs, and moreover, given their hectic trade negotiating agendas. Additionally, in assessing the desirability of an FTA, it is critical to explore possible alternative arrangements for strengthening bi-regional trade relations and economic co-operation.

ii.) In pursuance of the main objective of the investigation, it becomes necessary to undertake two preliminary and complementary tasks. Firstly, it is important to place the findings in the context of the history of the trade and economic co-operation between the two sub-regions. This is vital since there is a paucity of research on this subject, preventing a full reckoning of the foundations that have been already laid for future co-operation. Secondly, one must be directed by the trade and economic policies of the two groups, as well as by the strategies and priorities in the implementation of these. The three main aims therefore of the study can be summarised as follows:

iii.) To examine the history of co-operative trade and economic relations between CARICOM and the CACM with a view to identifying:

*(a) The major obstacles that affect trade and economic relations;*

*(b) The major opportunities that exist for improving trade and economic relations.*

iv.) To examine existing and proposed bilateral, regional, plurilateral and multilateral initiatives of CARICOM and the CACM in relation to other countries and blocs to distil:

*(a) Trade policy concerns, priorities, strategies and positions of the two groups and of individual countries within each regional grouping.*

*(b) The key features of the various agreements as they relate to trade in goods, services and new issues such as competition policy, investment and intellectual property.*

v.) To assess the possibility of successfully concluding FTA negotiations in the current trade policy environment against the backdrop of current bi-regional trade and economic relations and the respective negotiating agendas.

vi.) In pursuit of these objectives, the study has been divided into seven main sections, which are summarised below.

### ***Summary of the Study***

## **1. History of Co-operation between Central America and CARICOM**

1.1. Attempts at establishing formal mechanisms of co-operation between the two sub-regions mainly occurred in the 1990's through Ministerial Conferences. Starting with the First Ministerial held in Honduras in January 1992, the issues treated ranged from establishment of diplomatic relations, co-operation in regional and international decision-making fora, and the identification of areas of functional co-operation such as transportation, environment, information and technology, drug trafficking and education. An outstanding feature of the intra-regional exchanges was the creation of the Association of Caribbean States.

1.2. Advances in co-operation were adversely affected by the heavy commitments to multilateral and bilateral trade and other negotiations, and by the shortage of financial

resources to implement decisions. Also the Ministerials lacked an effective mechanism for follow-up. This was often delegated to regional institutions who themselves suffered from human resource, financial and time constraints.

## 2. Economic Profile of the Member States of CARICOM and the CACM

2.1. Many of the countries of the CARICOM are middle income countries. The Gross Domestic Product of the region in 1999 was US\$20.4 billion, giving a per capita income of US\$3,122. The economies display distortions in goods and factor markets, as well as limited production bases. Services account for upwards of 60 per cent of total output, while industry and agriculture contribute about 12 and 8 per cent, respectively.

2.2. From moderate levels at the start of the 1990's, growth picked up in the second half of the decade to average 3.6 per cent for the period. In 2000, most member-economies slowed, principally as a result of competition from cheaper imports and lower output of bananas and sugar. During the 1990's inflation also declined and averaged 7.9 per cent over the second half of the decade. Unemployment also fell during the period.

2.3. The CACM region is somewhat poorer than the Caricom region, with total GDP of US\$50 billion averaging out to just US\$1550 per person. Nevertheless, the economies are relatively diversified with services, manufacturing and agriculture accounting for the main share of output.

2.4. Economic growth in the CACM slowed slightly in the second half of the 1990's, to 3.9 per cent from 4.2 per cent in the first. In 2000 the global slowdown and worsening terms of trade retarded growth even further. The CACM region made noteworthy advances in employment growth and inflation reduction during the 1990's. Inflation was tackled by the implementation of tough economic measures, especially in Nicaragua.

## 3. Trade and Development Strategy in Central America and CARICOM

3.1. The broad trade and development strategy of CACM was distilled from two main growth and development models: the Havard-INCAE Growth Project and the Central American 2020 project. The first recommends the creation of competitive advantage around four clusters: Tourism; agro-industry; textiles and clothing; and the computer software and hardware industry. These sectors would lead to greater intra-regional economic interdependence, export-led growth and long-run sustainability. The Central American 2020 Project favours the development of the non-export sector.

3.2. Central America's general trade policy in the 1990's emphasized the promotion of exports and foreign investment and the opening of markets through bilateral and multilateral negotiations.

3.3. CARICOM's broad development strategy in the 1990's was influenced by four reports among which feature the Report on Caribbean Development to the Year 2000, the Time for Action Report and the OECS Development Strategy. These focus on the exploitation of new opportunities in the services and knowledge sectors, along with improved market access through multilateral, bilateral and plurilateral agreements.

3.4. CARICOM's trade policy is governed by the Protocol IV of the Caribbean Single Market and Economy. The Protocol calls for the active promotion of competitive exports and for securing the most favourable terms of trade for Community goods.

#### 4. Bilateral Agreements of Central America and CARICOM: Survey and Analysis of the Treatment of Services and New Issues

4.1. In moving away from the import-substitution model of development of the 1980's the CACM countries signed a series of bilateral trade agreements in the 1990's. These "new generation agreements" incorporate some of the rules and disciplines covered in bilateral trade accords for the first time in the NAFTA. By and large they contain unconditional commitments of Most Favoured Nation and National Treatment, use a

negative list negotiating modality and include future liberalisation, denial of benefits and transparency clauses. Apart from trade in goods, the agreements generally treat with services, investment, intellectual property, competition policy and government procurement, although at different levels of profundity.

4.2. Of the four agreements signed by CARICOM during the 1990's three can be described as "first generation" co-operation agreements which broadly cover trade in goods, and investment. The agreement with the Dominican Republic goes a bit further to emphasize the promotion of co-operation in the services area.

## 5. Trade Flows between CARICOM and Central America

5.1. Over the period 1995 to 1999 CARICOM enjoyed a favourable balance of trade with CACM. Most exports from CARICOM to CACM originate in Trinidad and Tobago while exports from CACM to CARICOM are spread among Costa Rica, Guatemala and Honduras. Exports from CARICOM to Central America were mainly Mineral Fuels and Lubricants, Chemicals and Manufactures.

5.2. The main suppliers of CACM goods to CARICOM were Guatemala, Costa Rica and Honduras in that order. Revealed Comparative Advantage indices show that the CACM countries enjoy comparative advantage in a broader range of products than do the CARICOM countries. CARICOM countries showed comparative advantage in products such as sugar, margarine, grapefruit juice, spices, mineral fuels and lubricant products. CACM displayed comparative advantage in fresh and dried fruits, coffee, household items, bananas, wood, parts for data processing equipment and electronic microcircuits.

## 6. Feasibility of an FTA between CARICOM and Central America

6.1. In this section the likely impact of the formation of an FTA between Central America and CACM is estimated by applying conventional measures of trade creation and trade diversion to inter-regional trade flows in goods for the year 1999.

6.2. The results show that in 1999 an FTA would have had a net trade diverting effect on all member states of CARICOM, with the largest losses being suffered by Jamaica, Trinidad and Tobago and Belize. For the members of the CACM there would have been a net trade diversion with the largest losses being suffered by Costa Rica, Guatemala and Honduras.

6.3. Net welfare losses are much larger for Central America than for CARICOM but still represent very small proportions of total imports of each sub-region.

## 7. Conclusions and Recommendations

### **Conclusions**

7.1. Given the low levels of trade flows and tariff barriers between the two sub-regions, it is doubtful that the formation of an FTA will lead to any significant welfare gains in terms of the traditional Vinerian measures of trade creation and trade diversion.

7.2. There does not appear to be strong support in Central America and CARICOM for the conclusion of an FTA between the two sub-regions. Only Costa Rica and Trinidad and Tobago have shown any interest in such a relationship-and then only between these two countries.

7.3. There is need for concrete and meaningful interaction across a wide range of activities to stimulate interest in deeper trade links.

### **Recommendations**

#### ***Building Co-operation around the Tourism Sector***

7.4. The importance of tourism to both sub-regions and the emphasis placed on the sector in the respective developmental programmes make it potentially strategic in developing cooperation between the sub-regions. If co-operation in the Tourism Sector is to be developed, then the following activities merit immediate attention:

- The Design and Promotion of joint packaged tours, holidays etc. that exploit the advantages of the ecology, history and culture of both Central America and the Caribbean region;
- Joint Co-operation in advertising CARICOM and Central America as key tourism destinations to lower advertising costs for hotel chains, restaurants, etc., in both regions.
- Co-operation between CARICOM and Central America in developing a common position re the Tourism Sector for the GATS negotiations.
- Development of a Scholarship Programme in Tourism Studies between tertiary level institutions in both sub-regions

#### ***Building Co-operation in Music and Entertainment***

7.5. The vibrant music and entertainment industries of both regions represent an opportunity for co-operation. The Caribbean and Central American region need to take the following bold steps to promote co-operation in the music and entertainment industries:

- Actively promote joint concerts in North America, Europe, Central America and the Caribbean that feature artistes from the two sub-regions;
- Encourage the development of “cross-over” musical forms between both sub-regions;
- Develop and enhance music education programmes in schools which promote musical forms of both regions;
- Actively promote co-operation between musicologists, conductors and musicians from both regions;

- Encourage the development of joint private sector initiatives that can support the music and entertainment industry.

### ***Co-operation in the Area of Recreational, Cultural and Sporting activities***

7.6. Some of the major barriers that prohibit effective co-operation between Central America and CARICOM relate to ignorance about each other's language, history and culture. If genuine co-operation is to be developed over time between both sub-regions, then public awareness programmes about the culture and history and sporting activities of the peoples of the region need to be actively promoted and financed.

Both regions should therefore:

- Encourage and promote exchanges between cultural centers and museums from both regions;
- Actively promote and support the annual exchange of teachers, researchers and university academics in both regions;
- Encourage artists and sculptors from both regions to mount joint art and cultural exhibitions;
- Enhance the curricula at the primary, secondary and tertiary levels to include elements of comparative history, geography, politics, business and science;
- Promote bi-lingual programmes at the secondary and tertiary levels.
- Encourage and actively promote the development of professional sporting leagues in the Caribbean and Central American region. Emphasis can be placed initially on football, basketball, cycling, swimming, lawn tennis, table tennis, chess, cricket and netball.

### ***Co-operation in Air and Marine Transportation***

7.7. One of the major factors that limits travel and trade links between CARICOM and Central America is the weakness in the transportation system. The development of trade links between both regions requires a regional transportation policy that will:

- Promote greater liberalization of air transportation in both sub-regions;
- Develop pragmatic avenues for co-operation (even with the TACA/AA group) which may include the maintenance and management of equipment; and the lowering of operational costs via the joint sharing of terminal and baggage facilities.

### ***Strengthening Regional Institutions and Improving Inter-regional Collaboration and Co-operation***

7.8. The history of co-operative efforts between CARICOM and Central America indicates very serious weaknesses in the institutional structures designed to promote co-operation between the two sub-regions. If the regional institutional architecture is to assist in promoting co-operation between CARICOM and Central America, then there is an urgent need to:

- Streamline the focus of Regional Institutions to include matters relating to CARICOM-Central American relations;
- Strengthen the human resource and financial capabilities of institutions to enable them to carry out their tasks more effectively;
- Encourage and promote stronger links between regional and national institutions in the Caribbean and their counterparts in Central America. In particular, emphasis should be place on promoting linkages among educational, tourism-oriented and business organizations;
- Encourage nationals of the Caribbean who are domiciled in Central America to develop organizational structures that can facilitate co-operation between both sub-regions.

### ***Building Political and Diplomatic Capital for Improved Co-operation in the FTAA and Multilateral Trading System.***

7.9. CARICOM and the CACM have witnessed a depreciation in “political and diplomatic capital” as a result of differences over: the need for special and differential

treatment within the FTAA, the issue of a waiver under the WTO concerning the Cotonou Agreement, and the desirability of a new Round under the WTO. There is need for:

- An examination of the role that Belize can play in deepening the level of co-operation at the political level between both sub-regions. It is an observer in the Central American Integration System (SICA) while being a full member of CARICOM.
- Intensifying lobbying efforts by CARICOM within the ACS and in other fora to improve co-operation at the political and diplomatic levels between both sub-regions;
- Strengthening of formal levels of contact between the Ministers and Vice-Ministers of Trade in Central America and their counterparts in CARICOM.

***Co-operation in the area of Telecommunications, Information Technology and Statistical/Information Systems***

7.10. The Plan-Puebla-Panama programme now being developed in Central America will serve as a catalyst for improvements in information/statistical systems and information technology. Already, both Guatemala and El Salvador have made major investments in fibre-optic links with Mexico that open up the entire telecommunications network in Central America while reducing the effective cost of information services. ***This development pries open an important doorway to the North American market that the Caribbean region must not ignore.*** CARICOM will need to:

- Encourage collaboration between Comision Tecnica de Telecomunicaciones (COMTELCA) in Central America and various telecommunication organizations in the CARICOM region (e.g. Eastern Caribbean Telecommunications Authority (ECTEL) and Telecommunication services of Trinidad and Tobago (TSTT));
- Monitor closely the changes that have been made to regulatory policy on telecommunications in Central America;

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- Encourage collaboration and co-operation between information technology and telecommunication providers in both regions;
  - Strengthen collaboration between statistical agencies in both regions;
  - Develop joint statistical projects that can collect data and information on inter-regional investment, migration, and activities of regional and transnational firms that operate in both sub-regions;
  - Collaborate on the development of regional web pages that provide comprehensive information in related sectors in Spanish, English and French to serve the needs of Central America and the wider Caribbean.