



BARBADOS AND THE FTAA

Free Trade Area of The Americas



CHALLENGES & OPPORTUNITIES



Produced by
The Ministry of Foreign Affairs & Foreign Trade

Ministry of Foreign Affairs & Foreign Trade

Preface

In December 1994, 34 Heads of Government and State of this hemisphere met in Miami and agreed among other things to establish a Free Trade Area of the Americas (FTAA). Their Trade Ministers were mandated to take the necessary concrete initial steps to achieve the Free Trade Area of the Americas.

The decision to establish the FTAA was part of a wider consideration by the hemispheric leaders who addressed the question of partnership for development and prosperity of the hemisphere. In their effort to promote prosperity through integration and free trade, they recognised that the continued economic progress of the hemisphere depends on sound economic policies, sustainable development and dynamic public sectors. They further agreed that a key to prosperity is trade without barriers, without subsidies, without unfair practices, and with an increasing stream of productive investments.

The elimination of impediments to market access for goods and services among the countries of the hemisphere was also seen as a means of fostering economic growth thereby raising standards of living and improving the working conditions of people in the Americas.

Formal negotiations for the establishment of the FTAA began in 1998 following the Second Summit of Heads of State and Government in Santiago, Chile. Negotiations are continuing with the aim of bringing the free trade area into operation by the end of 2005.

This publication on **Barbados and the FTAA: Challenges and Opportunities**, provides an insight into Barbados' involvement in the process towards the establishment of the FTAA. It is the second in a series of four publications relating to Barbados in the New Global Economy. It is intended to be used for educational purposes.

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Printed July 2004

Compiled & designed by Ona Harewood

What is the FTAA?

The Free Trade Area of the Americas (FTAA) is a far reaching initiative aimed at uniting some 34 countries of the Western Hemisphere (Cuba excluded) into a single trade and economic bloc.

This is to be accomplished through the removal of barriers to trade, the elimination of unfair trade practices and promotion of the unimpeded flow of investment throughout the Americas. The FTAA is intended to go beyond the traditional issues of removing tariff and non-tariff barriers. Trade rules in the FTAA will cover areas such as (agricultural and industrial) goods, services, intellectual property, government procurement, dispute settlement and competition policy.

Once established, the FTAA will be the largest free trade area in the world. It will encompass a marketplace of more than 854 million people - an estimated 13% of the world's population.

Why an FTAA?

This ambitious project was conceived by the 34 Heads of Government and State in December 1994 at the First Summit of the Americas held in Miami. It is seen as part of the wider process of hemispheric cooperation. The objective of the FTAA is the improvement of standards of living, working conditions of all the peoples of the hemisphere and better protection of the environment.

The FTAA is also the hemisphere's response to the forces of globalisation and liberalisation. The forging of ties among the countries within the FTAA would facilitate the smoother transition of the hemisphere into the evolving global economy where it is foreseen that trade and other forms of economic activity will be freely conducted across national boundaries.

A free trade area is an agreement between participants who commit themselves to abolish all tariffs, quotas and other trade restrictions against members, while maintaining them against non-members.

How did it all begin?

The Heads of Government and State in Miami in 1994 issued a Declaration of Principles and a Plan of Action for the FTAA. They also instructed their Ministers of Trade to undertake a series of steps towards the formation of the FTAA. In pursuit of this, the Trade Ministers met on several occasions to address the relevant issues that would constitute a FTAA. By 1998, in San Jose, Costa Rica, the Trade Ministers agreed to the structure for the FTAA negotiations as well as the general principles and objectives to guide those negotiations. Their recommendations were formally endorsed by the Heads of Government and State at the Second Summit in Santiago, Chile in 1998.

At that time, the Heads also officially launched the FTAA negotiations which were to be conducted in the following nine areas:

- o Market access (industrial goods);
- o Agriculture;
- o Services;
- o Subsidies, anti-dumping and countervailing duties;
- o Intellectual property rights
- o Investment;
- o Dispute settlement;
- o Competition policy;
- o Government procurement

Each area would be the responsibility of a Negotiating Group with specific mandates. A Trade Negotiations Committee was also formed to oversee and manage the negotiating groups. Trade Ministers would meet periodically to review progress and give any new directives necessary.

Of major importance to Barbados and other countries in the Caribbean, was an agreement that negotiations would take into account the differences in the levels of development and size of the economies in order to facilitate full participation by all countries. The FTAA consultative Group on Smaller Economies was therefore formed to advise on matters relating to this subject.

Highlights of General Principles & Objectives

The FTAA Agreement will be consistent with the rules and disciplines of the WTO and will improve upon WTO rules and disciplines wherever possible and appropriate, taking into account the full implications of the rights and obligations of countries as members of the WTO.

Countries may negotiate and accept the obligations of the FTAA individually or as members of a sub-regional integration group negotiating as a unit.

In order to ensure the full participation of all countries in the FTAA, the differences in their level of development should be taken into account.

The rights and obligations of the FTAA will be shared by all countries.

The measures agreed upon to facilitate the integration of smaller economies in the FTAA process shall be transparent, simple and easily applicable, recognizing the degree of heterogeneity among them.

All countries shall ensure that their laws, regulations and administrative procedures conform to their obligations under the FTAA agreement.

Objectives

To establish a free trade area, in which barriers to trade in goods, services and investment will be progressively eliminated.

To maximize market openness through high levels of disciplines through a balanced and comprehensive agreement.

To provide opportunities to facilitate the integration of the smaller economies in the FTAA process in order to realize their opportunities and increase their level of development.

The Third Summit was held in April 2002 in Quebec City where the Heads reiterated their commitment to hemispheric integration. At this meeting the Heads restated their support for the FTAA as part of their overall development goals, stating that "free trade, without subsidies or unfair practices, along with an increasing stream of productive investments and greater economic integration, will promote regional prosperity, thus enabling the raising of the standard of living, the improvement of working conditions of people in the Americas and better protection of the environment".

What does it mean for Barbados?

The establishment of the FTAA can bring a wealth of opportunities and benefits for the tiny island economies of the Caribbean including Barbados. However, it also presents numerous challenges which Barbados will have to try to overcome as it seeks to capitalize on these benefits.

The architects of the FTAA which include Barbados' negotiators are faced with a unique challenge: to devise a path to the liberalization of trade within the western hemisphere and to integrate the economies of thirty-four very different countries ranging from the microstates of the Eastern Caribbean to mega-developing countries such as Brazil and Mexico (each with over 100 million people) and industrialized countries such as the United States and Canada. These countries vary greatly in terms of size, territory, population, natural resource endowment and levels of economic development.

Did YOU know that:

The Republic of Trinidad and Tobago is the only Caribbean country among a total of 11 candidates seeking to host the FTAA Secretariat. The others are cities in Mexico, Panama, Puerto Rico and the United States of America. If Trinidad and Tobago wins, the Secretariat will be located in the capital Port-of-Spain.

The Secretariat will, among other things provide administrative support, translation and interpretation services and the management of documentation.

Antigua & Barbuda

Argentina

The Bahamas

Barbados

Belize

Bolivia

BRAZIL

Canada

Chile

Colombia

Costa Rica

DOMINICA

Dominican Republic

Ecuador

El Salvador

Grenada

Guatemala

Guyana

HAITI

Jamaica

Honduras

Mexico

Nicaragua

Panama

Paraguay

PERU

St. Kitts & Nevis

St. Lucia

St. Vincent & the Grenadines

Suriname

Trinidad & Tobago

United States of America

Venezuela

Uruguay

*Who's Who
in the
FTAA*

Opportunities

The benefits a country can obtain from a free trade agreement such as the FTAA are many. One of the biggest benefits for Barbados, coming out of the FTAA, would be an expanded market for services. Barbados is well on its way to becoming an exporter of high quality, high valued services. The FTAA promises a market of over 800 million. This would mean that local service providers will be able to offer their services more freely in the USA, Canada and other markets than currently exists.

Barbadian consumers also stand to benefit from the entry into force of the FTAA. It is envisaged that this trade initiative will result in the availability of a wider array of products thus giving consumers a greater range of choice. Another gain for the Barbadian consumer will be a reduction in prices as goods produced in the hemisphere will be allowed into Barbados free of customs duties.

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| S e r v i c e s | The services sector is one area in which Barbados expects to benefit when the FTAA comes into force. |
| | Some examples of services are: |
| | ❖ legal, |
| | ❖ medical, |
| | ❖ accounting and financial, |
| | ❖ information technology, |
| | ❖ architectural, |
| | ❖ engineering, |
| | ❖ educational, |
| | ❖ construction, |
| ❖ transportation, | |
| ❖ landscaping, and | |
| ❖ entertainment to name a few. | |

The local manufacturing sector also stands to reap benefits from a Free Trade Area of the Americas. One of the major hurdles facing local manufacturers is the high cost of inputs which can make their products uncompetitive. The FTAA can provide local producers with new sources for those inputs at substantially lower prices. This can go a long way towards reducing the operating costs for manufacturers thus giving them a more competitive edge and making their products more attractive to consumers.

At the heart of the FTAA are the expected benefits that could accrue to members as a result of the expansion of trade opportunities. As was stated earlier, the agreement seeks to remove barriers to the trade in goods and services, investment, technology flows and the movement of ideas. This can help Barbados and the rest of the Caribbean integrate into a dynamic and complex global market place, especially if the anticipated robust capital flows and technology transfers are realised. In addition, Barbadian producers will have free access to new markets such as those of Central and South America and expanded access to the United States and Canadian markets.

Challenges

Small countries, like Barbados and those in the Caribbean, face a variety of challenges on the path to full participation in the FTAA. There are certain characteristics associated with small economic size that could impact on their effective participation in the FTAA. These include:

- a limited domestic market comprising small firms;
- a relatively undiversified export base;
- relatively high dependence on imports;
- vulnerability to external economic shocks, including fluctuations in interest rates and variations in world demand and supply for goods and services;
- high vulnerability to natural disasters such as hurricanes, floods and earthquakes.

Other particular difficulties which many of the smaller economies in the hemisphere face are related to, but not necessarily a consequence of, smallness. These include relatively high trade deficits and a high reliance by government on income from trade taxes.

One of the greatest challenges facing Barbados and the wider Caribbean is an apparent reluctance by the international community to accord special status to small states. It must be recognised that the small size of our countries cannot be changed. As a result, special provisions are required to permit such countries to cope in any hemispheric arrangement.

Caribbean countries therefore, have consistently argued that the FTAA should make specific provisions for Special and Differential Treatment (S&DT) for smaller and less developed economies. S&DT should include:

- special derogations from liberalisations where necessary with longer lists of sensitive industries;
- the exclusion of sensitive industries from the liberalisation process;
- longer phase in periods; and
- technical and financial assistance.

Another challenge which Barbados can face is increased competition in key areas of services and goods, from the more developed and larger countries within the hemisphere. Competition will come not only from countries such as the US, but also from others such as Argentina, Brazil and Mexico. One sector that is particularly vulnerable is agriculture. In the United States and Europe farming is still heavily subsidized, and the existence of such non-tariff barriers will make their produce unfairly competitive. Increased competition in key areas of services and goods from the more developed and larger countries within the hemisphere can pose a challenge to local industries. Nevertheless such competition could stimulate more efficient production in Barbados.

It is not considered that the challenges we face are insurmountable. Furthermore, we are convinced that the opportunities presented from participating in the FTAA outweigh the challenges.

A Note on Regionalism

Regional economic integration which is an important feature of international economic relations is on the increase. Regional and bilateral trading agreements are so pervasive today that nearly all WTO members are signatories to at least one such trade accord. Within the Western Hemisphere the process of regionalism has been significant.

Regional Groupings within the Hemisphere

Andean Community: Bolivia, Colombia, Ecuador, Peru and Venezuela.

Caribbean Community (CARICOM): Antigua & Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Lucia, St. Kitts & Nevis, St. Vincent & the Grenadines, Suriname and Trinidad & Tobago.

Central American Common Market (CACM): El Salvador, Guatemala, Honduras and Nicaragua.

Mercosur: Argentina, Brazil, Paraguay and Uruguay.

North American Free Trade Area (NAFTA): Canada, Mexico and the United States of America

Where to get more information on the FTAA?

On the World Wide Web:

www.ftaa-alca.org

www.sice.oas.org

www.ictsd.org

www.iadb.org

www.crrm.org

www.foreign.gov.bb (under construction)