HEMISPHERIC TRADE ALIGNMENTS AND THE TRADE OPTIONS FOR POST-TRANSITION CUBA[1]

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I-INTRODUCTION

International trade relationships have changed significantly during the past decade. While almost all of the trade liberalization during the preceding forty years occurred in a multilateral framework, usually under the auspices of the General Agreement on Tariffs and Trade (GATT), negotiations during the late 1980s and early 1990s focussed on bilateral, trilateral, and other limited trade arrangements.

This trend results, in part, from the increasing difficulty of conducting multilateral trade negotiations (MTNs). As more countries join the GATT accord, its membership becomes more diverse. While the increased diversity generates wider opportunities for mutual gains from trade, the practical realities of negotiation have simultaneously become more complex. Narrow interest groups have much more power now, as the charter members of GATT are less able to focus on a successful conclusion to a round of negotiations. For example, environmentalists in the most-developed nations want to restrict the economic expansion of developing nations, whose leaders correctly point out that they cannot be overly concerned with environmental issues while their industries die and their people go hungry. Similarly, the producers of intellectual material, such as computer software, books, patented inventions, and entertainment items, want increased protection against copyright- and patent-infringement. Governments in developing countries sympathize, but want access to free tools and ideas in order to modernize their economies as rapidly as possible. Clearly, the addition of more nations, mostly underdeveloped, to the world trading system will only increase the difficulty of negotiating so-called North-South issues.

In addition, the global expansion of nationalism resulting from German reunification, the breakup of the former Soviet Union, and the world-wide recession, have decreased popular support for multilateral accords. In the United States, this decline has been intensified by news media emphasis on the trade deficit, which has led to "buy-American" campaigns and "fair trade" legislation, such as Section 301. In such a xenophobic environment, political realities require that multilateral negotiations be slowed.

Finally, the United States, once the champion of freer global trade through multilateral negotiations, has drastically reduced its commitment to the MTN framework. In addition to the aforementioned issues, the United States and the European Community have clashed in the agricultural-subsidies debate. The U.S. has demanded cuts in European agricultural subsidies that are apparently politically infeasible for countries like France. The Bush administration's all-or-nothing approach to the GATT's Uruguay Round was yet another symptom of the need to "win" unconditionally in order for multilateral accords to be considered successful by the populace. Since the Clinton Administration appears to be less free-trade oriented, it is likely to take an even harder line, arguing that there is less to lose if a round of negotiations fails.

On the positive side of this trend, the fervor for regional trade pacts has increased markedly during the last ten years, kindled by the European Community's ambitious plan to form a fully integrated market. The consummation of the Maastricht treaty has been almost assured by the recent positive ratification vote in Great Britain. Many of its components have already been implemented. Some other countries reacted to the original "EC 1992" proclamations by expressing fear of a "fortress Europe." The United States reacted in typical fashion by forming a competing trading bloc with Canada and Mexico in the form of the North American Free Trade Agreement (NAFTA).

In addition to NAFTA, the United States implemented a number of programs designed to help the smaller Latin American and Caribbean countries. These programs include the Caribbean Basin Initiative (CBI) and the Enterprise for the Americas Initiative (EAI). The European Community has long assisted its former colonies with treaties such as Lomé.

While the smaller Latin American nations have a history of offering lip service to the concept of free trade areas such as the Caribbean Community (CARICOM), the Central American Common Market (CACM), the Andean Pact (AP) and the Latin American Integration Association (LAIA), such organizations have historically been ineffective in promoting economic linkages and freeing trade, especially in the 1980s.

Only recently have serious attempts at regional integration taken place in Latin America. Chile will apparently be the next target for a bilateral U.S. free trade agreement. That country already has a bilateral accord with Mexico. Chile is also negotiating trilateral free trade agreements with Colombia and Venezuela and with Mexico and Venezuela. Mexico and Venezuela have also been active in moving toward (separate) conventions with the Spanish-speaking Central American nations. Venezuela signed a pact with CACM early on. In October, 1992, Venezuela signed an additional accord to be implemented in 1993 with CARICOM.

In short, the new international economic environment in the Western Hemisphere consists of a complex structure of trade treaties, regional markets, and economic alliances. Historical relationships are changing rapidly, and will continue to evolve for the foreseeable future. Both the countries directly involved and the non-participant countries will be forced to formulate policies in reaction.

This dynamic trade environment poses special policy problems for Cuba, during and after the transition to a market economy. For many decades, Cuba enjoyed a special trade relationship with the United States. This relationship was destroyed by the Cuban Revolution, and was replaced by an embargo that has persisted for 32 years. Cuba looked instead to Europe and the Orient for support, forming alliances with the former Communist countries and with China.

The combined stresses of an enhanced trade embargo and the loss of economic support from Europe are forcing critical decisions by the Castro government. During the last session of the Cuban Assembly, Fidel Castro recommended the legalization of the U. S. dollar as currency throughout the island economy.[2] Such a policy would have been unthinkable only a year ago. As the Cuban economy declines further, and rationing intensifies, the transition to a democratic government and a market economy looms closer on the horizon.[3]

When the transition arrives, among the major policy decisions that the new government must make are trade alignments. Given the large number of regional free trade areas, and the two common markets in the hemisphere, the options open to a free Cuba appear extensive. But any trade alignment must have approval from both sides of the market. There are legitimate doubts that Cuba will be accepted as an additional member of some regional trade groupings, such as CACM or CARICOM.

It is also possible that actions such as the "dollarization" of the Cuban economy may postpone the ultimate transition. In that event, the Cuban government may consider hemispheric trade alignments as a supporting policy. The continuation of the United States trade embargo will be a potent factor, probably limiting this option. Probably the most common assumption made by analysts is that Cuba will remain severely limited in its trade options until the transition. After the transition, it is argued, the most feasible option will be the negotiation of preferential trade arrangements with the United States. Additional hemispheric alignments may then follow.

This paper assesses the current state of regional trade integration and regional trade policy in the Western Hemisphere, delineates the most reasonable options for trade alignment open to a free Cuba, and suggests some of the limitations that the Cuban government may face in re-entering hemispheric markets. The question of initial post-transition negotiations with the United States is explicitly addressed.

II. APPROACHES TO ECONOMIC INTEGRATION

Economic integration can be achieved through a variety of structures and contractual arrangements, ranging from very informal agreements to complex structures based on a nexus of treaties. Such arrangements can also cover large, small, contiguous, or separated geographic areas. The options open to Cuba are thus varied. El-Agraa delineates the basic integration structures as follows, arrayed in order of increasing unification and complexity.

Free Trade Areas. The concept of a free trade area is both simple and appealing. Participating nations agree to remove most or all trade impediments among themselves, permitting the natural flow of trade to shift jobs and resources as the market dictates. The members of a free trade area retain the ability to establish their own trade relations with nations outside the area, and to formulate their own individual external trade policies. Examples of this form of integration are the European Free Trade Association (EFTA) and the Latin American Free Trade Area (LAFTA). The United States currently participates in several free trade arrangements, including bilateral free trade with Israel, the Canadian-United States Free Trade Area (CAFTA), and NAFTA.

Customs Unions. A customs union builds on the base of a free trade area, but goes one step further in establishing a common external trade posture toward the rest of the world. Common external tariffs are the usual expression of this centralized policy. The European Community (EC) is a customs union, among its other organizational attributes.

Common Markets. Common markets are customs unions that permit the free flow of productive factors across the political boundaries of member nations. Capital and labor ideally move without hindrance within the confines of a common market, and entrepreneurs are free to exercise their abilities in any member country. The now-dead East African Community (EAC) was intended to be a common market, as is the European Community. Note that the EC still has not achieved complete factor mobility among its member nations. Historically, the most successful common market has been the one established by the United States constitution in 1789. It is probably the longest-lived viable common market on earth. It is noteworthy that successful common markets have invariably generated high levels of economic growth and material prosperity.

Complete Economic Unions. A complete economic union (usually shortened to "economic union") is a common market that centralizes monetary and fiscal policies for the member countries, and usually unifies the monetary system. The member nations are, in effect, regions of one country defined by the boundaries of the union. The European Community is moving toward this goal with the "EC 1992" program, and with the earlier adoption of the European Currency Unit (ECU) as a common monetary unit.

Complete Political Integration. This state of affairs exists when the member nations give up all political autonomy to one central government, in effect making the union a sovereign state. This is the kind of union that was created in 1789 when the thirteen independent states came together to form the United States.[4]

Tinbergen points out that the first two structures, free trade areas and customs unions, may be easily established through what he calls "negative integration," the reduction of trade impediments among the participating countries. As a simple extension of national trade policy, the creation of these arrangements can be accomplished without significant internal political or economic change. It is true that the economic impacts of a free trade area or customs union may be substantial, once the arrangement is in operation. Transition periods are often established to permit the participating countries to adjust gradually to the new trade patterns. For example, the North American Free Trade Area (NAFTA) is being established with a fifteen-year transition period, during which major trade barriers will be gradually eliminated.

More complex arrangements, such as common markets and complete economic unions, may be achieved only through "positive integration," defined by Tinbergen as "the creation of all the institutions required by the welfare optimum which have to be handled in a centralized way." Such arrangements require extensive international cooperation, the surrender of some national sovereignty to a supranational organization, and a policy attitude that recognizes the interrelatedness of economic life. For this reason, common markets and economic unions both require a longer period of time to establish, and tend to enjoy a longer life than more easily-established arrangements.[5]

Given these constraints, it is clear that the short-term options open to the Cuban government are limited to free trade areas and perhaps customs unions. More extensive integration, into a common market or economic union, will necessarily involve internal structural change.

III - TRADE ARRANGEMENTS IN THE WESTERN HEMISPHERE AND EUROPE

The economic crises of the 1980s forced many governments in the western hemisphere to reassess their roles and policies. In addition to an extensive privatization movement, encouraged by the Caribbean Basin Initiative, a strong movement toward economic integration emerged. More recently, this movement was strengthened by the North American Free Trade Agreement and the Enterprise for the Americas Initiative (EAI). The following sections describe the current trade arrangements in this hemisphere, as well as the European Community and its connections to former colonies.

A. COMMON MARKETS

<u>The Caribbean Community and Common Market.</u> The Caribbean Community and Common Market (CARICOM) was established in 1973 to encourage economic, political, and cultural cooperation among the English-speaking Caribbean countries (Commonwealth countries).[6] It replaced the Caribbean Free Trade Association (CARIFTA). Thirteen countries now are members: Antigua/Barbuda, the Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts-Nevis, St. Lucia, St. Vincent/the Grenadines, and Trinidad and Tobago (see Table 1). Seven of the smaller CARICOM countries have joined in the East Caribbean Common Market, now a part of the Organization of East Caribbean States. CARICOM meetings in 1990 resulted in a complex of noteworthy agreements, including a common external tariff (adopted by all member states except Montserrat, St. Kitts-Nevis, St. Lucia, and Antigua/Barbuda), common rules of origin, and the first steps in establishing a regional stock exchange. At their latest meetings, negotiators also moved toward what is described as "hassle-free" tourist travel among CARICOM countries, and the establishment of a supranational Assembly of Caribbean Community Parliamentarians. A controversial technical cooperation agreement with Cuba also emerged from the meetings.[7]

Because of the English-language orientation of CARICOM, its members have generally been excluded from pacts among the Spanish-speaking nations of Latin America. Spanish-speaking countries have likewise not found a home in CARICOM. This exclusion could be remedied through a policy of membership expansion. Both Haiti and the Dominican Republic have long-standing applications for membership. Venezuela applied for membership in 1991, tying its application to the offer of a five-year phase-out of trade restrictions. In order to reap the economies of scale and scope that come with larger markets, however, CARICOM must also turn north to the U.S. and Canada, or east to Europe. Initial moves in this direction include the signing of a Trade and Investment Framework Agreement with the United States, under the rubric of the Enterprise for the Americas initiative, in July, 1991.[8]

The Central American Common Market. The Central American Common Market (CACM) was set up by the Managua Treaty of 1960 to establish a free-trade zone among participating countries. Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua were the original members. Honduras withdrew in 1967, establishing bilateral trade agreements with the other four countries. The hostilities between Honduras and El Salvador in 1969 effectively destroyed the original arrangement. At a meeting in mid-July, 1991, the presidents of the member countries moved to reestablish a viable trade mechanism, and voted to add Panama to the group, leaving only Belize unaligned with it. Since Panama has not traditionally considered itself a part of Central America, this move reflects a basic change in policy by its government. The goals of the new agreement include free regional trade in 95 percent of all commodities traded in the region, and a common external tariff. At the latest summit (the so-called "CA-4"), the presidents of the memebr countries reiterated their support for economic integration, and agreed to work toward an open-border policy.[9]

Recent political and social unrest in the region have continued to hamper the working of CACM. The August, 1987, meeting of the presidents of Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua, that generated a landmark peace agreement for the region, raised international hopes for a quick rebirth of regional cooperation.[10] Subsequent political changes, continuing guerrilla warfare, and the U. S. invasion of Panama have diminished those hopes.

The CACM nations have now revived the commitment to enhance their trade agreements with their neighbors. A key issue will be whether they can keep their commitment to more open economies, in order to benefit from a vastly increased market. Fortunately for CACM, increased market access can come from both the U.S. EAI program and from cooperation with the more developed Latin American countries like Mexico and Venezuela.

The New European Community. Winston Churchill first gave voice to the dream in 1946 when he urged, "We must build a United States of Europe." The establishment of the European Coal and Steel Community in 1951 was a practical first step. But when Luxembourg, France, Belgium, Holland, Italy, and West Germany signed the Treaty of Rome in 1957, formally establishing the European Community, a true, fully-integrated, Europe-wide common market was still just a distant possibility.[11]

The dream appeared almost attainable in 1986, when a twelve-member European Community signed the Single European Act, effectively defining "Europe" as including only themselves. The Act was based upon recommendations made in an EC Commission White Paper, entitled "Completing the Internal Market". The White Paper presented more than 300 directives that, if realized, would eliminate the existing barriers to the movement of capital, services, and people among the EC countries. Barriers included internal border controls, technical trade barriers, limited government procurement policies, discriminatory policies regarding professional qualifications, widely differing indirect taxes, and strongly constrained capital movements.[12]

Currently, at least half of the directives have been approved, and are apparently being implemented. The original target date of 1992 for establishment of the new "Europe" has gradually been pushed forward to 1993 or 1994. The geographic scope of the new union has also subtly changed. Sweden, for example, was encouraged to apply for membership, and did so. Of even greater interest is the agreement signed May 2, 1992, by ministers of EFTA and EC to establish a European Economic Area (EEA), including all nineteen countries in a broad free trade area that will approach a customs union in its complexity. Serious discussions concerning the union will probably begin after the ratification of the Maastricht Treaty. Internal dissension caused by a newly-unified Germany has also crystallized the positions of France and Great Britain about the future inclusion of East European countries -- France opposing and Great Britain favoring the expansion.[13]

Clearly, the twelve players are still performing as sovereign states, and do not seem ready to yield that sovereignty fully to a common market governing body. Critical decisions still have to be made, for example, about the design and implementation of monetary policy, one of the key sticking points in negotiations.[14] Jack L. Hervey sums up the situation succinctly:

The next major, and perhaps the most difficult, stage in the process will require the giving up of big chunks of national sovereignty by submitting national economies to an increasingly powerful supranational authority. In an environment now lacking the external prod of the Soviet bloc and facing the structural changes taking place in Eastern and Central Europe and Germany, the early rush to EC monetary union was faster than could reasonably be sustained. Progress toward that end will surely be more cautious during the next few years.[15]

A shifting internal political and economic balance of power may alter attitudes of EC members toward less-developed trading partners, particularly the ACP countries. The latest version of the Lomé Convention (see below) could well expire close upon the attainment of full integration in the EC, perhaps as early as 2000, suggesting a full review of trade policy. The results are unpredictable. Indeed, most analysts in the United States admit their inability to predict how "EC 1992" will affect the current largest common market on earth -- the 50 United States.

FREE TRADE ARRANGEMENTS IN THE WESTERN HEMISPHERE

The North American Free Trade Agreement (NAFTA). The North American Free Trade Agreement builds on the Canada-United States Free Trade Agreement, or CAFTA, which was established on January 1, 1989. NAFTA has the explicit purpose of creating a continent-long free trade area, including Canada, the United States, and Mexico. This three-country market will have a combined population of over 360 million people, and an aggregate GDP of well over $6 trillion.[16] Initial estimates suggest that NAFTA will bring net growth benefits to all three member countries, but at the expense of substantial movements of jobs and resources across international boundaries.

The economic impact of NAFTA is expected to be so significant that it has been accorded a transition period of fifteen years. During that period of time, tariffs and other trade barriers will be dropped or eliminated on a wide variety of goods, and freer access to cross-border markets will be possible. As is true with every major trade treaty, the United States has designated certain politically sensitive or strategically important goods for protection through a system of "safeguards".

The treaty now lies before the United States Congress. While portions of NAFTA are strongly opposed by specific interest groups, among them labor unions and farmer organizations, the Clinton Administration has pledged its support to the successful initiation of the program early in 1994. When a hemispheric point of view is taken, NAFTA itself becomes part of a larger vision of free trade that was initiated three years ago.

The Enterprise for the Americas Initiative. President George Bush promulgated the Enterprise for the Americas Initiative (EAI) on June 27, 1990. The EAI envisions a hemispheric free trade system, beginning with the North American Free Trade Agreement (NAFTA) among Canada, Mexico, and the United States, and gradually expanding to include all of Central and South America. As enunciated by President Bush, EAI should ultimately bring a free trade area that stretches from Alaska to Tierra del

Fuego. The initiative focusses on the three critical policy areas of trade, investment, and debt, offering substantial aid to hemispheric countries.[17]

Negotiations have already been extensive. Framework agreements on trade and investment are now in place with virtually all Latin American countries, with the four member countries of the Southern Cone Common Market (MERCOSUR), and with CARICOM. Typically, the framework agreements establish Trade and Investment Councils with oversight and counsel capabilities.

Investment opportunities are being supported by a new sector lending program of the Inter-American Development Bank (IDB), with prospects of a $1.5 billion multi-country Multilateral Investment Fund being set up in the near future, including contributions from Europe and Japan. Debt restructuring and reduction are being addressed through a complex of support procedures for internal economic reform. [18]

Continued progress under EAI depended, to some extent, on the successful conclusion of the Uruguay Round of trade negotiations. Since those negotiations are now at an impasse, some uncertainty exists as to the next policy steps that will be taken by the United States. The was, however, no uncertainty about the desire and intent of the Bush administration to move toward freer hemispheric trade -- or, put differently, toward hemispheric regional integration. The Clinton Administration has basically placed EAI on the back burner for the moment. The future of this initiative is therefore uncertain.

<u>The Latin American Integration Association.</u> The Latin American Integration Association (LAIA, or ALADI in Spanish) was established in 1980 as a replacement for the Latin American Free Trade Association (LAFTA), which was set up under the auspices of the Montevideo Treaty of 1960. Both the earlier and the later organizations were designed to promote economic integration and economic development in those countries not belonging to the CACM or CARICOM. In addition, free trade among member countries was not a primary goal. LAIA spans a wide geographic area, including Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, and Venezuela.[19] Among the South American countries, only Guyana and Surinam are not members. While trade liberalization was not an initial goal of LAIA, member countries agreed in 1990 to reduce tariff barriers inside the group by 50 percent.[20]

<u>The Southern Cone Common Market.</u> The four South American countries of Argentina, Brazil, Paraguay, and Uruguay, are completing negotiations to form the Southern Cone Common Market (MERCOSUR). The Treaty of Asunción, signed March 26, 1991, is the enabling document. The countries share common borders, and two of the countries, Paraguay and Brazil, have developed a common hydroelectricity project at Itaipú, on the Paraná River, with the possibility that the energy generated by the project may later be routed throughout MERCOSUR.[21] The roots of MERCOSUR extend back to 1986 agreements between Argentina and Brazil to liberalize bilateral trade.

At last report, plans were still in effect for MERCOSUR to take effect for Argentina and Brazil by the end of 1994, and for Uruguay and Paraguay by the end of 1995--four to five years earlier than originally planned. Major provisions of the treaty include the ultimate elimination of tariffs, customs restrictions, and hindrances to the movement of workers among the four countries. Note that the four signatories are also members of ALADI. Chile was originally involved in the discussions, but is not a final signatory.

MERCOSUR will ultimately offer the largest market in Latin America, about twice the size of the Canadian market. The combined countries have a population of 194 million persons and a GDP of $467.5 billion. Exports among the member countries now total $4.1 billion.[22]

<u>The Andean Pact.</u> The Andean Pact was formalized in the Cartagena Agreement of 1969, bringing

Bolivia, Colombia, Chile, Ecuador, and Peru together in a combination to eliminate trade barriers, to form a customs union, to develop joint industrial programs, and to coordinate economic policies. Venezuela joined the Pact in 1974, but Chile withdrew in 1976.[23]

Major goals established by the Pact included the coordination of trade and investment policies, the ultimate establishment of a common external tariff, and agreements on investment and intellectual property rights. Unfortunately, there was little progress until 1990. At that point, each country was engaged in trade and investment liberalization programs. The announcement of the Enterprise for the Americas Initiative in June, 1990, brought renewed action. Meetings in La Paz, Bolivia, during November, 1990, yielded an agreement among the five Andean presidents for an Andean Common Market, with a target implementation date of 1996. A year later, the Acta de Barahona, coming from the Cartagena meetings of the presidents, established a free trade area among Venezuela, Colombia, and Bolivia. Peru and Ecuador were brought into the arrangement in mid-1992. Additional talks have resulted in initial agreements about a common external tariff.[24]

Intra-Market Agreements. The formation of MERCOSUR qualifies as an agreement among nations that are also members of a larger trade organization. El Salvador and Guatemala also recently agreed to draft a proposal to create a bilateral free trade zone, this within CACM.[25] Chile has trade agreements with Mexico, Venezuela, and Argentina. A tri-country pact among Mexico, Venezuela, and Colombia (the so-called Group of Three, or G-3) has a target date of 1994. Chile has expressed interest in joining the group. And hopes still persist that the Andean Pact countries will resolve the differences generated by disparate economic size and power, and initiate a market among themselves. Clearly, the movement to change trade alliances and lower trade barriers is not a unilateral action on the part of the United States, although United States policies probably precipitated many of the current moves toward trade liberalization.

Other Trade Policies and Arrangements

The Caribbean Basin Initiative. The Caribbean Basin Initiative (CBI) began operation on January 1, 1984, with an anticipated 12-year initial life span. Its basic purpose was "to promote private sector-led economic growth, stability, and diversification in the CBI region . . . through the provision of duty-free access to the large and lucrative U. S. market".[26] CBI represented the response of the U. S. government to deteriorating economic conditions in the Caribbean Basin, recently worsened by the effects of the 1981-1982 recession.

Currently, 23 countries qualify under CBI for exemptions from U. S. customs duties, Belize among them. Four other countries are eligible, but have chosen not to participate at this time. Panama was suspended from the program in April, 1988, and was reinstated on March 17, 1990.[27] Table 1 summarizes membership of hemispheric countries in major trade arrangements.

Reconsideration of CBI by Congress led to passage of the Caribbean Basin Economic Recovery Expansion Act of 1990 (CBI II). This revision of the 1983 legislation made CBI a permanent program of the U. S. Government, with no termination date; it also targeted some developing countries for special efforts to encourage wider use of CBI preferences.[28]

CBI does not provide blanket access to U. S. markets. The law specifically excludes a variety of items from duty-free entry, including most textiles and apparel, canned tuna, petroleum and petroleum products, most footwear and gloves, some leather goods, and watches and watch parts originating in communist countries. In addition, any goods entering the United States from CBI countries must meet all relevant laws and regulations for consumer safety and protection. Two specific screening requirements are that the imported goods must show at least 35 percent value added by the producing country (prohibiting a simple "pass-through"), and that goods produced from materials originating outside the CBI must show a "substantial transformation" in the CBI manufacturing process.[29]

The United States Sugar Program. The United States has maintained some kind of border control over sugar flows for almost 200 years. Import duties on raw sugar were an early revenue source for the Federal government. The first legislation specifically intended to encourage domestic sugar production was passed in 1890. Since that time, a formal sugar program has been almost continuously maintained.[30]

From 1934 to 1975, sugar production and import policies were determined by a series of legislative acts that had these common characteristics: (1) the forecasting of domestic sugar consumption, and the division of this market among domestic and foreign producers; (2) benefit payments to domestic growers; (3) acreage restrictions; (4) an excise tax on sugar; (5) minimum wage rates for field workers; and (6) child labor restrictions. The impacts of these acts varied over time, but generally served to subsidize inefficient U. S. sugar production, and to raise the retail price of sugar to U. S. consumers.[31]

The 1975 and 1976 sugar crops were not covered by a support program, but falling world sugar prices stimulated new legislation in 1977. The Food and Agriculture Act of 1977 set the tone for succeeding legislation. Domestic sugar prices were to be maintained at or above loan prices through a system of import duties and fees. When sugar prices dropped again in 1982, a system of country import quotas was imposed, based upon each country's share of U. S. sugar imports during the 1975-1981 period. That quota system is still in effect, as an integral part of later legislation.

Since import quotas are keyed to U. S. sugar consumption (or market demand), the recent decline in domestic sugar consumption has forced reductions in import quotas. Market analyses suggest either a leveling off of demand, or a future decline. Either outcome suggests problems for foreign sugar producers, especially in light of higher-productivity technology that some U. S. sugar producers are now adopting.[32]

Apart from the costs of the sugar program to American consumers (some $3 billion per year), its economic impact on foreign producers has been substantial. The countries most adversely affected have apparently been the Philippines and the sugar-exporting countries of the Caribbean Basin. The Caribbean sugar industry is the region's largest employer, producing the region's third largest export.

Analysts point out that the Caribbean Basin countries have had to implement emergency support and aid programs to maintain their sagging sugar industries, and to reduce worker unrest. In addition, efforts have been made either to introduce alternative cash crops, or to move toward cane derivatives, such as ethanol. The downsizing has been very painful, especially in Belize, Barbados, the Dominican Republic, and St. Kitts-Nevis, where sugar has been the dominant export commodity.

Alternative preferential markets apparently do not provide much relief. While some of the CBI countries receive a preferential price for their sugar in the European Community under the Lomé Convention (this being the world's second largest market), sales of excess sugar there have not offset the loss of U. S. foreign exchange. In short, the U. S. sugar program has proved to be damaging both at home and abroad. Given current politics and sugar consumption patterns, it is unlikely that the program will either change substantially or be liberalized in the foreseeable future.[33]

The Generalized System of Preferences. Under the sponsorship of UNCTAD, developed countries established preference programs during the 1970's to favor goods exported from developing countries. The original intent of the program was to establish a uniform system in all of the industrial countries, hence the name, "Generalized System of Preferences" (GSP). In practice, most countries have established policies that reflect their own national interests. Japan and the Western European countries set up their preference schemes in 1971-1972. Canada and the United States did so on January 1, 1976. The United States GSP began as a ten-year program. It was extended in 1985 for another 8.5 years.[34]

The GSP gives 140 countries duty-free entry for approximately 3,000 products. United States products with heavy import competition are excluded, as are politically sensitive goods. As a result, the range of preferential exports has been narrowed considerably, favoring the more advanced developing countries. In 1987, for example, 79 percent of the duty-free imports under GSP came from Taiwan, Hong Kong, Mexico, Brazil, Israel, and Singapore. In 1989, Taiwan, South Korea, Singapore, and Hong Kong were "graduated" from the program, removing their preferential status. At the same time, in an attempt to encourage participation, special benefits were awarded to 41 nations classified as least developed.[35]

The Lomé Convention. The Lomé Convention was signed in Lomé, Togo, in 1975, by representatives of the European Economic Community (EEC) and some 50 low-income countries in Africa, the Caribbean, and Oceania (ACP). It replaced and broadened a prior preferential treaty between France, Belgium, and 18 former African colonies. Following the provisions established by the General Agreement on Tariffs and Trade (GATT), the EEC provided indirect aid to the low-income countries through lower tariffs for specified trade commodities.[36]

The Convention has been renewed three times since its inception. Lomé IV currently provides free entry into EEC countries for manufactured goods and some agricultural products from the more than 60 ACP members, and the entry of primary commodities at stable prices. The EEC also provides development assistance and food aid to ACP countries.

IV - TRADE OPTIONS OPEN TO CUBA

The economic characteristics of Cuba in 1990 reflect both the advances of the Castro government during the flush times of Soviet support and its more recent failures under the stress of the Communist breakdown and the United States embargo. 1990 is chosen as a base year for comparison because of the availability of data for other countries and because the Cuban economy had not then begun its most precipitous fall. Cuba's 1990 population was estimated to be 10.8 million, up from only 7 million in 1960. Out of that total population, 3.6 million persons made up the island's labor force. Employment was distributed as follows: 30 percent in government and services, 22 percent in industry, 20 percent in agriculture, 11 percent in commerce, 10 percent in construction, and 7 percent in transportation and communications. CIA estimates suggest an "economically active" population of at least 4.8 million. The Gross Social Product (not directly comparable with GDP or GNP) was approximately $27 billion at that time. Per capita income was $2,644. Both of these measures fell deeply in 1991 and 1992. It is estimated that overall economic activity in Cuba has dropped by about 50 percent since 1990.[37]

1989 trade estimates show exports from Cuba of $5.4 billion, or 20 percent of GSP, including sugar, nickel, shellfish, citrus products, tobacco, and coffee. About 67 percent of the exports went to the former USSR, 6 percent to the former German Democratic Republic, and 4 percent to the People's Republic of China. Imports were a healthy $8.1 billion, and included capital goods, industrial raw materials, food, and petroleum. The former USSR provided 71 percent of the imports, with other Communist nations supplying another 15 percent.[38] The visible trade deficit ($2.8 billion for 1989) will likely worsen when markets are opened, without continuing support from other "fraternal" states.

Cuban industrial production accounted for about 45 percent of its 1990 total product. Major industries included sugar milling, petroleum refining, food and tobacco processing, textiles, chemicals, paper and wood products, metals (especially nickel), cement, fertilizers, consumer goods, and agricultural machinery. Agricultural output contributed another 11 percent of total product. The major commercial crops were sugarcane, tobacco, and citrus fruits. Other important commodities included coffee, rice, potatoes, meat, and beans.[39]

This mix of industries and agricultural enterprises suggests a diversified economic structure, supported by an equally diversified resource base. Under free market conditions, such would certainly be the case. The economic base would not change significantly in that event, but the country's institutional arrangements would be different, as it accessed new markets and established new trading relationships.

These figures can only reflect the basic outlines of the Cuban system. They cannot show the increasing strain placed upon the Cuban economy by a totalitarian regime in conflict with its nearest neighbors. The data also do not reflect the $18.5 billion in economic and military aid provided Cuba by Communist countries between 1970 and 1989, and the $710 million coming from other countries and agencies over the same time period, excluding the United States. Such support underscores the inefficiency of a command economy, in which prices rarely reflect value.

Cuba is the largest country in the Caribbean. It was once an economic colossus. Even in recent years, it was the world's foremost exporter of sugar, and a major player in the world citrus market. When the transition finally occurs, and the island economy is open to hemispheric markets, it will have the opportunity once again to acquire that level of economic ascendancy. How it does so is a matter of critical importance. The choice of trade alliances and trade arrangements is one extremely important decision.

PRE-TRANSITION OPTIONS

One major difficulty in Cuba's immediate future is the country's ability to alter its trade policy without concomitant structural change in its economy. In other words, what can the Cuban government do to stimulate growth in the absence of a transition, and in the presence of a continuing trade embargo imposed by the United States? Recent events suggest a partial answer.

The announcement by Fidel Castro that United States dollars will become legal tender in Cuba constituted an act of "negative integration," to use Tinbergen's term. It was a policy change internal to the Cuban economy, that had the effect of marginally liberalizing economic relations with the United States. Unilateral actions such as these are clear options for the Cuban government, even before the transition occurs. They are interpreted by journalists as overtures to the United States, in the hope that the Clinton administration will loosen its hold on the Cuban economy. The policy statements by CARICOM concerning Cuban inclusion in Caribbean economic groupings are of a similar nature.[40]

More extensive policy changes will be more difficult to accomplish, since negative integration activities leading toward the establishment of free trade areas with other countries are necessarily bilateral. Given the impact of the Cuban Democracy Act and the power of the United States to enforce its enhanced embargo, few hemispheric nations will be willing to chance a breakdown of relations with their largest trading partner for the possibility of some gains from trade with Cuba. In other words, the establishment of preferential trade arrangements between Cuba and other hemispheric nations may be established clandestinely, and to a limited extent. More extensive overt relationships are politically and economically infeasible under current conditions. This statement takes into account the existing clandestine trade that takes place between Cuba and its neighbors around the Caribbean and Central America, and the established tourist trade that U. S. trading partners such as Canada enjoy with Cuba.

Cuba's former trade ties to Russia and the countries of Eastern Europe cannot be restored in the foreseeable future, although continued trade with those nations is a given. The support of the People's Republic of China has also fluctuated, and has not been able to fill the large gap created by the breakup of the Communist empire. Recent connections with North Korea and Albania have so far yielded minimal results, but show some promise. If such new alliances are to save the Cuban economy from further disintegration, however, they must be quickly and extensively exploited. Cuba has very few options as long as the United States embargo is in effect.[41]

POST-TRANSITION OPTIONS

Once the transition to a democratic system occurs, it is likely that large amounts of foreign capital will flow into Cuba, permitting renewal of its infrastructure and the resurgence of its key export industries. Regardless of the characteristics of the post-transition economic structure of Cuba, the island will undoubtedly return to a position of dominance in the Caribbean. With a sugar industry that should have an annual capacity of ten to fourteen million tons, about 100,000 acres of citrus plantings, some of the best cigar leaf in the world, outstanding tourism potential, and a variety of mineral resources, Cuba will overwhelm most of its regional neighbors in terms of productive capacity. This renewed economic power, once more freely exercised in a hemispheric market, may prove a hindrance to any significant trade arrangements with Latin American or Caribbean countries. Table 2 summarizes some of the key comparative data for Cuba and her potential trading partners.

Common Market Options. Within the hemisphere, two existing common markets offer the possibility of Cuban association. Both are located in or around the Caribbean, and thus offer geographic propinquity. CARICOM has established a track record of viability and internal cooperation since its inception in 1973. It is clearly a "going concern," and is proceeding to establish closer trading ties with its northern trading partners. CACM, in contrast, exhibits a checkered history, marred by political instability and military conflict. Only during the last three years have the Central American nations moved actively toward greater cooperation. At the time this paper is written, CACM is still more dream than reality.

As noted above, Cuban membership in a common market will require bilateral approval and negotiations. Both the member countries and Cuba must agree upon mutual trade liberalization, must see mutual advantage in the expansion of the common market, and must agree that the addition of Cuba is the proper policy. In addition, Cuba will likely be required to bend its trade policies to fit those already established by the common market. Internal structural changes will be necessary. The likelihood of all these requirements being met appears quite low.

In the case of CARICOM, the member countries are bound together by history and language. Most of the countries also share similar governmental structures. Their Caribbean neighbors generally have emerged from a different cultural and governmental matrix. Although Haiti, the Dominican Republic, and Venezuela have petitioned to become members of CARICOM, the organization has so far resisted any efforts to expand, suggesting a community of interest that has fixed boundaries, at least in the immediate future.

If Cuba petitions for membership in CARICOM, it will bring to the union a domestic market of substantial size. As the data in Table 2 show, the (pre-decline) Gross Social Product of Cuba is five times greater than the GDP of the most developed CARICOM countries. The Cuban population is also larger than the population of any of the member nations. Post-transition Cuban consumers are sure to have needs for an extensive array of consumer goods, many of which could be supplied under preferential arrangements by CARICOM countries.

On the other side of the coin, Cuba presents an economy that dwarfs the other member countries in size and diversity. In particular, the dominance of the Cuban sugar industry, and the size of its citrus industry, offer direct threats to the economic well-being of CARICOM nations. Belize, for example, depends heavily upon sugar and citrus exports for its foreign exchange. That country has a population of only about 200,000 persons. Even a small reduction in its world market share of sugar and citrus exports could be very damaging. It and other CARICOM nations of similar size would probably resist the adoption of another strong competitor. Language differences (English versus Spanish) may also enter the argument.

From a slightly different point of view, it can be argued that the complementarities in output that encourage bilateral or multilateral trade are few. Competitive similarities appear to be widespread and commanding.

In the case of CACM, the same arguments hold. Cuba's Gross Social Product is larger than the GDP of all five Central American countries combined. The Cuban population is larger than the population of any CACM member. Several of the Central American nations rely heavily upon agricultural exports, most of which are sold in western markets. Cuba's re-entry into that market area, inside or outside CACM, will bring the island into head-to-head competition with the Central American economies. Sugar exports will be a major bone of contention.

Although Spanish is their common language, economic realities appear to outweigh cultural similarities. CACM members would probably prefer an external competitor to one within the group. It is also true that CACM may not yet be a viable and stable institution by the time Cuba needs to make decisions about trade alliances. How the Central American nations would view Cuba from a military point of view is an open question.

In any event, negotiating a place within CARICOM or CACM would be a protracted exercise, and probably not the most effective use of time and effort by Cuban diplomats. It must be remembered that Cuba will be offering an economy that has suffered drastic short-term decline, and that requires rapid trade relief.

Cuba's opportunity for some kind of association with the European Community is limited. The Lomé agreements are intended to provide a preferential market for the ACP countries, most of which are former colonies, and most of which have not yet achieved their development potential. Commodities favored under Lomé tend to be agricultural in nature, including sugar and bananas. Since the future of the Lomé agreements is now in doubt, the probability of Cuba realizing an agreement with the EC appears low.

<u>Free Trade Area Options.</u> Post-transition negotiations with regional free-trade blocs offer greater flexibility to Cuba, since structural changes would tend to be less. As was noted above, both Cuba and the trade bloc members must desire the association, and must view it as mutually beneficial.

The Andean Pact is based primarily upon geography. Its members are ranged along the spine of the Andes (or near them), sharing common borders and many common economic characteristics. The Pact is also in an early stage of development, with a clear emphasis upon internaal coherence. It is unclear how Cuba's addition to the group could bring substantial benefits, unilateral or mutual. Similarly, Mercosur is a geographic grouping in the southern cone of South America. Its members likewise share common borders and similar economic characteristics. Apart from structural differences, sheer distance suggests problems if Cuba were to seek membership. Cuba's size would hardly be a problem in either case, since only Bolivia, Paraguay, and Uruguay have smaller populations.

One possible alternative for Cuba is a bilateral trade agreement with Venezuela. Although Venezuela is a member of the Andean Pact, its government has aggressively pursued bilateral and multilateral agreements with Chile, Colombia, Mexico, and the Central American countries. Venezuela is also located close to Cuba, and is about twice its size in terms of population and GDP (see Table 2).

A single alliance with Venezuela would hardly suffice to provide the capital and trade needed for Cuba's resurgence. Mexico may offer an alternative. Some trade apprently now takes place between Mexico and Cuba. Any post-transition negotiations with Mexico to expand trade further will be complicated by Mexico's heavy involvement in NAFTA. Cuban trade with Canada is already fairly substantial, especially tourism, suggesting modest gains, at best, from its expansion.

These considerations all point toward one conclusion: Cuba's most viable post-transition option will probably be immediate direct negotiations with the United States. Once close trade ties are re-established, and capital flows have begun, Cuba may be able to gain from the pursuit of other bilateral and multilateral trade combinations.

<u>Negotiations with the United States.</u> Until 1959, Cuba was the focus of special attention from the United States Congress and the U. S. business community. Its strategic location, its rich resource base, and its historic major role in supplying key commodities all contributed to this importance. At the same time, it is true that this relationship led to exploitation and economic inequities.

Once the transition to democracy occurs, it is likely that Cuba can negotiate with the United States from a position of relative strength. The country will have substantial immediate needs for infrastructure repair, health care, agricultural supplies, spare parts, and perhaps temporary aid in maintaining its national defense. Investors and governmental agencies in the United States can respond effectively to these needs. In exchange, Cuba will offer a government in the process of being democratized, a population with many ties to Cuban groups in the United States, and an economy able to supply many of the needs of its neighbors. Its strategic location is an obvious trait that emphasizes its other strengths.

At a minimum, Cuba should be able to gain coverage under the Caribbean Basin Initiative and the Generalized System of Preferences. CBI was established to encourage private-sector expansion of production in the Caribbean countries. As Cuba privatizes key firms and industries, this internal structural change will fall in line with the goals of the program. CBI is basically not tied to the level of development of the countries it covers. GSP does "graduate" those countries that have achieved industrial maturity, but post-transition Cuba will not immediately enjoy that economic condition. GSP also provides a broader menu of preferential options. If and as the Clinton Administration actively pursues EAI, Cuba could qualify for the establishment of a Trade and Investment Council, and subsequent aid in meeting its growth goals. Preferential treatment of sugar, citrus, tobacco, and tourism should also be the focus of negotiations.

Once basic trade relationships with the United States are established, Cuba may pursue the possibility of becoming a full-fledged member of NAFTA. At the present time, the United States has indicated that Chile will probably be the focus of such negotiations in the near future. Should the transition occur in the near future, Cuba could realistically either replace Chile in plans for expanded hemispheric free trade, or be added to the negotiating list.

Table 1

Regional Trade Arrangements in the Western Hemisphere

COUNTRY	EAI	LAIA	MERCOSUR	ANDEAN PACT	NAFTA	CARICOM	CACM
Canada					M		
Mexico		M			M		
United States	M				M		
Belize	M					M	
Costa Rica	M						M
El Salvador	M						M
Guatemala	M						M

Honduras	M						M
Nicaragua	M						M
Panama	M						M
Antigua/ Barbuda	M					M	
The Bahamas	M					M	
Barbados	M					M	
Dominica	M					M	
Grenada	M					M	
Jamaica	M					M	
Montserrat	M					M	
St.Kitts/Nevis	M					M	
St. Lucia	M					M	
St. Vincent	M					M	
Trinidad/ Tobago	M					M	
Argentina	M		M	M			
Bolivia	M		M		M		
Brazil	M		M	M			
Chile	M		M				
Colombia	M		M		M		
Ecuador	M		M		M		
Guyana	M						
Paraguay	M		M	M			
Peru	M		M		M		
Uruguay	M		M	M			
Venezuela	M	M			M		

Note: "M" indicates member.

Sources: de la Torre and Kelly, REGIONAL TRADE ARRANGEMENTS, IMF Occasional Paper 93, March, 1992; USDOC, 1991 GUIDEBOOK: CARIBBEAN BASIN INITIATIVE.

TABLE 2

Economic Indicators for Western Hemisphere Nations, 1990

	Population (millions)	GDP ($billions)	GDP per capita (dollars)	Trade per GDP (percent)	Inflation (percent)
NORTH AMERICA	276.4	$5,999.0	$21,706	23.8	
United States	250.0	$5,423.4	$21,696	21.1	4.9
Canada	26.4	$575.6	$21,803	50.0	5.7
LATIN AMERICA	431.9	$840.5	$1,946	30.7	1186.3
LAIA	384.0	$788.7	$2,054	28.9	
Mexico	88.6	$175.5	$1,980	38.9	29.9
Chile	13.2	$32.3	$2,451	57.8	27.3
ANDEAN PACT	92.2	$154.5	$1,677	33.3	
Bolivia	7.3	$6.4	$870	28.4	18.0
Colombia	33.0	$46.7	$1,416	30.5	32.0
Ecuador	10.6	$13.2	$1,249	37.8	49.5
Peru	21.6	$28.3	$1,312	28.1	7657.8
Venezuela	19.7	$60.0	$3,038	37.5	36.5
MERCOSUR	190.1	$426.4	$2,244	20.9	
Argentina	32.3	$84.8	$2,623	23.1	1343.9
Brazil	150.4	$326.2	$2,169	19.0	1585.2
Paraguay	4.3	$6.4	$1,493	55.0	44.1
Uruguay	3.1	$9.0	$2,921	46.8	129.0
CENTRAL AMERICA	26.5	$25.5	$962	51.8	

Costa Rica	3.0	$5.1	$1,677	80.5	27.5
El Salvador	5.3	$5.7	$1,091	45.1	19.3
Guatemala	9.2	$8.2	$892	40.2	59.6
Honduras	5.1	$4.5	$880	47.7	36.4
Nicaragua	3.9	$2.0	$505	54.8	13490.9
OTHER	32.3	$23.8	$1,120	73.1	
Barbados	0.3	$1.5	$5,835	94.2	3.4
Belize	0.2	$0.3	$3,310	103.2	4.0
Cuba	10.8	$27.0	$2,500	50.0	na
Dominican Republic	7.2	$5.1	$716	81.4	100.7
Guyana	0.8	$0.4	$554	146.9	na
Haiti	6.5	$2.1	$324	37.5	26.1
Jamaica	2.5	$3.5	$1,401	108.6	29.7
Panama	2.4	$4.7	$1,941	62.2	1.5
Suriname	0.4	$1.3	$3,320	51.1	na
Trinidad and Tobago	1.2	$5.1	$4,195	58.2	9.5

Source: Adapted from Saborio, *The Premise and the Promise: Free Trade in the Americas*, 1992, Table 2; *Belize Abstract of Statistics*, 1991, Tables 5.1, 5.2, 6.4, and 13.1; *CIA World Factbook*, 1992

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Footnotes

Hemispheric Trade Alignments and the Trade Options for Post-transition Cuba.

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[2] Arturo Villar, "The Dollarization of the Cuban Economy," The Wall Street Journal, Vol. CCXXII, No. 6 (July 9, 1993), p. A9.

[3] Jose de Cordoba, "Survival Tactics: Its Economy Dying, Cuba Seeks Salvation in Dollars and Exiles." The Wall Street Journal, Vol. CCXXII, No. 12 (July 19, 1993), pp. A1 and A12.

[4] Ali M. El-Agraa, International Economic Integration (New York: St. Martin's Press, 1982), Introduction; International Trade (New York: St. Martin's Press, 1989), pp. 151-161.

[5] Jan Tinbergen, International Economic Integration, Second edition (Amsterdam: Elsevier Publishing Company, 1965), pp. 77-79.

[6] DeLisle Worrell, "U. S.-Caricom Free Trade", in Sylvia Saborio, editor, The Premise and the Promise: Free Trade in the Americas (New Brunswick: Transactions Publishers, 1992), pp. 217-231; Kenneth O. Hall, "The Caribbean Community", in Ali M. El-Agraa, International Economic Integration (New York: St. Martin's Press, 1982), pp. 190-205; Karl M. Bennett, "An Evaluation of the Contribution of CARICOM to Intra Regional Caribbean Trade," Social and Economic Studies, Vol. 31, No. 1 (1982).

[7] U. S. Department of Commerce, Business America 111:15 (August 13, 1990), inside front cover; Jay Dowling, "Caribbean Common Market Has Broad Economic Agenda," Business America 113:6 (March 23, 1992), p. 7; Michael Becker, "Caricom Drifting? Two steps forward, one step backward," Caribbean Week 4:21 (July/August, 1993), pp. 1-2.

[8] Dowling, loc. cit.

[9] Ibid.; U. S. Department of Commerce, Business America 112:15/16 (July 29/August 12, 1991), inside front cover; Jay Dowling, "Central American Economic Integration Proceeds," Business America 113:6 (March 23, 1992), p. 5; El-Agraa, International Trade, p. 157; "At 4th C. A. Summit, presidents agree open border policy on right track," Honduras This Week 6:30 (August 7, 1993), pp. 1-2.

[10] For the full text of the agreement, see Costa Rica, Oficina de Apoyo de la Presidencia de la Republica, Procedimiento para Establecer la Paz Firme y Duradera en Centroamerica (San Jose: Imprenta Nacional, 1987). An official, but insightful, analysis of the unrest in Central America prior to the Guatemala City accord of 1987 is presented in U. S. Department of State, The Challenge to Democracy in Central America (Washington, D. C.: U. S. Government Printing Office, October, 1986).

[11] For succinct background coverage, see Thomas Bennett and Craig S. Hakkio, "Europe 1992: Implications for U. S. Firms," Economic Review (Federal Reserve Bank of Kansas City), April, 1989, pp. 3-17.

[12] See Gita Bhatt, "Europe 1992: The quest for economic integration," Finance and Development 26:2

(1989), pp. 40-42.

[13] Ibid. For a rather irreverent, but very discerning inside look at recent attitudes and negotiations inside the EC, see Jane Kramer, "Letter from Europe," The New Yorker, July 29, 1991, pp. 63-73. For background information on the European Economic Area, see Marie Treinen, "European Economic Area: Extends the EC's Single Market Across Western Europe," Europe Now: A Report (Washington, D. C.: International Trade Administration, July/August, 1992).

[14] A good summary of this controversy appears in Jacob A. Frenkel and Morris Goldstein, "Europe's Emerging Economic and Monetary Union," Finance and Development 28:1 (1991), pp. 2-5.

[15] Jack L. Hervey, "Europe at the Crossroads," Chicago Fed Letter, No. 72 (August, 1993), p. 3.

[16] Craig VanGrasstek and Gustavo Vega, "The North American Free Trade Agreement: A Regional Model?", in Saborio, op. cit., pp. 157-160.

[17] For a succinct presentation of the operation of EAI since its promulgation, see U. S. Department of Commerce, Business America 112:14 (July 1, 1991), p. 10. A more popular, and less official view, is given by "Turning the Hemisphere into a Free Trade Bloc," Business Week, December 24, 1990, p. 37, and "Mexico: A New Economic Era," Business Week, November 12, 1990, pp. 102-110.

[18] Business America, 112:15/16 (1991), inside front cover.

[19] Atlas of United States Foreign Relations, p. 33.

[20] Business America 111:15, inside front cover.

[21] See Business America, 112:14 (1991), p. 20, and Américas, 43:2 (1991), pp. 2-3.

[22] "The Mercosur Countries are Potentially a Huge Market," Business America 113:6 (March 23, 1992, p. 8.

[23] Alberto Pascó-Font and Sylvia Saborio, "U. S.-Andean Pact Free Trade", in Sylvia Saborio, editor, The Premise and the Promise: Free Trade in the Americas (New Brunswick: Transactions Publishers, 1992), pp. 233-234.

[24] Laurie MacNamara, "Andean Region Makes Integration Effort," Business America 113:6 (March 23, 1992), p. 5-6.

[25] Business America, 112:15/16 (1991), inside front cover.

[26] The broad outlines of the CBI program are presented in U. S. Department of Commerce, 1989 Guidebook: Caribbean Basin Initiative (Washington, D. C.: U. S. Government Printing Office, October, 1988). The basic enabling legislation was the Caribbean Basin Economic Recovery Act, passed in 1983 by the U. S. Congress, in immediate response to some of the economic problems caused by the 1981-1982 recession. Note that CBI follows the spirit of the Generalized System of Preferences (GSP), but is legally and administratively different. GSP allows about 3,000 items from developing countries duty-free into the United States. CBI is

much more limited in geographic scope, and more selective in trade items. See also Louis A. Woods, "The Caribbean Basin Initiative and Its Impact on Belize," paper presented at the annual meetings of the American Popular Culture Association, Montreal, March, 1987.

[27] Loc. cit., pp. 3, 7-10. The eligible, but non-participating countries, are Anguilla, Cayman Islands, Suriname, and Turks and Caicos Islands. See also U. S. Department of Commerce, 1991 Guidebook: Caribbean Basin Initiative (Washington, D. C.: U. S. Government Printing Office, November, 1990), pp.1-2.

[28] For details, see 1991 Guidebook, pp. 57-61.

[29] Loc. cit., pp. 7-10.

[30] Basic data and analysis for this section come from U. S. Department of Commerce, United States Sugar Policy: An Analysis (Washington, D. C.: U. S. Government Printing Office, April, 1988), passim. The report was prepared primarily by Ralph Ives and John Hurley of the

International Trade Administration, DOC. Basic conclusions are strongly critical of the sugar program, arguing that it harms both the U. S. economy and the economies of its trading partners.

[31] Loc. cit., pp. 1-3.

[32] Loc. cit., pp. 1-3, 23-25. Increasing use of non-cane sugars and sugar substitutes are among the reasons for the slowing consumption trend.

[33] Loc. cit., pp. 41-43, 46, 62, 97.

[34] Mordecai E. Kreinin, International Economics: A Policy Approach, Sixth edition (San Diego: Harcourt Brace Jovanovich, Publishers, 1991), pp. 428-429.

[35] Ibid.; and Richard E. Caves, Jeffrey A. Frankel, and Ronald W. Jones, World Trade and Payments: An Introduction, Fifth edition (Glenview, Ill.: Scott, Foresman/Little Brown Higher Education, 1991), pp. 280-282.

[36] See Thomas Grennes, International Economics (Englewood Cliffs, N. J.: Prentice-Hall, Inc., 1984), pp. 202-214. GATT provisions permit discrimination in favor of certain trading partners when the countries are members of a customs union, such as the EEC. GSP authorizes tariff preferences for low-income countries. The EEC established tariff preferences for 91 low-income countries, beginning in 1971. The United States followed with its own preferential

system in 1976. The signatory low-income Caribbean countries covered by Lomé I include the Bahamas, Barbados, Dominica, Grenada, Guyana, Jamaica, St. Lucia, Suriname, and Trinidad and Tobago. The remaining countries are located in Africa and Oceania. The group is popularly known by the acronym, "ACP", for African, Caribbean, and Pacific Group of States. It now includes more than 60 developing countries. See Ellen Frey-Wouters, The European Community and the Third World (New York: Praeger, 1980), pp. 283-287, and U. S. Department of State, Atlas of United States Foreign Relations, 2d ed. (Washington, D. C.: U. S. Government Printing Office, December, 1985), p. 28.

[37] United States Department of State, Background Notes - Cuba (Washington, D. C.: U. S. Government Printing Office, 1992), pp. 1-2; Central Intelligence Agency, World Factbook (Washington: U. S. Government Printing Office, 1993). For a discussion of some of the problems of economic measurement, see Jorge F. Pérez-López, Measuring Cuban Economic Performance (Austin: University of Texas Press, 1987), passim; J. P. Rathbone, "The Cuban Economy: A Twelve Month Review," paper presented at the Third Annual Meetings of the Association for the Cuban Economy, Miami, Florida, August 26-28, pp. 1-3.

[38] Central Intelligence Agency, World Factbook (Washington, D. C.: U. S. Government Printing Office, 1992), p. 86.

[39] Ibid.

[40] Jose de Cordoba, "Survival Tactics: Its Economy Dying, Cuba Seeks Salvation in Dollars and Exiles," The Wall Street Journal, Vol. CCXXII, No. 12 (July 19, 1993), pp. A1 and A12. Also see Caribbean Week references above.

[41] Susan Kaufman Purcell, Cuba's Cloudy Future (Washington, D. C.: The Cuban American National Foundation, 1990, passim