

MOVING FORWARD TO INTEGRATION OR BACKWARD TO RUINATION:  
A LOOK AT THE ECONOMIC, POLITICAL & SOCIAL CHANGES OF  
FREE TRADE ON THE BAHAMAS

by

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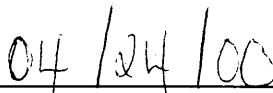
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### Abstract

The role trade liberalisation and economic integration play in the development of a country is often questionable. Some suggest a direct linkage between the two variables, saying that liberalisation leads to an improvement in all countries involved. On the other hand, others state that there is conflicting empirical evidence to date concerning a relationship between trade and development. They go on to say that such liberalisation can often have many negative effects, especially for small developing countries. It was not the intention of this paper to say that one faction is right and the other is wrong, but instead to look at the potential effects that trade liberalisation could have on a country's development. The focus was on the small and rapidly developing country of the Bahamas. The impacts that trade liberalisation efforts, such as the proposed Free Trade Areas of the Americas (FTAA), could have on this country's economical, social, and political policies were studied. In exploring this topic, the main research methodology employed was that of historical – comparative research. The process involved an analysis of historical data, assembling and interpreting it in different ways with the intention of predicting possible future scenarios. An analysis of the Bahamian country showed that it was one of stable economic growth, political operation and strong social values. The ways in which the FTAA agreement could effect a country such as this are numerous, with both positive and negative effects. However, overall it could be concluded that trade liberalisation and the FTAA will result in the Bahamas moving to a higher level of development in the three areas studied. As we enter this new millennium and an era of increase globalisation, such free trade will serve to integrate the Bahamas into its surrounding environment, as opposed to ruining the country.

**Chapter 1 - Introduction**



“...Integration will not save the economy of any country in the region, nor will it doom any of them...nonetheless, the way in which integration proceeds will have major consequences for their economic, political, and social well being.” (King and Naim, 1997)

The concepts of free trade and integration have many dimensions as they could often have profound impacts on a country, as illustrated from the above quotation. The advantages of trade liberalisation are a common focus of most of the empirical research presently being conducted on international trade. It is often agreed that free trade allows countries access to a broader range of goods and services that they may be incapable of producing efficiently. Alternatively, the disadvantages of liberalisation and integration may be less discussed. Therefore the aim of this thesis is to highlight both the pros and cons of free trade to a country; specifically it will explore the potential impacts of free trade on the small, but economically stable, country of the Bahamas. Its purpose is to consider the economic, social and political changes required in the country because of free trade. Also to explore whether such changes are likely to bring about integration as intended, or rather move the country towards ruination. It should be stated from the outset, that it is not the intention of this paper to say whether integration is good or bad for the Bahamas, or whether the country should or should not become involve in attempts at free trade. Rather just to present the potential effects that such integration and free trade could have on the country.

In exploring the potential effects of trade liberalisation and integration on the Bahamas, the thesis will focus on a particular free trade agreement that is presently in the

negotiation stages. This agreement, the proposed Free Trade Areas of the Americas (FTAA) agreement, is scheduled to be implemented by 2005. The FTAA is a hemispheric agreement aimed at integrating the entire Western Hemisphere. It has as one of its primary goals the reduction of tariffs and non-tariff barriers to trade in order to facilitate the free movement of capital. The purpose of the agreement is to enable each of its members to gain from trade liberalisation, and not for some to gain at the expense of others. The potential benefits and concerns that such an agreement could have on the present status of the Bahamian economy, society, and political structure will be analysed, in an attempt to discern whether free trade would be in the country's best interest or not.

The FTAA represents a culmination of the process of regional integration on this side of the world as it stems from many other trade agreements that are presently in operation within the hemisphere. A couple of the more popular examples include the North Americas Free Trade Agreement (NAFTA) and the Mercosur Agreement. Despite the proliferation of bi-lateral or sub-regional trade agreements within the hemisphere there presently still exists many barriers to trade within the region. More often, these take the form of non-tariff barriers such as import duties and tariffs or bans and quotas. Therefore an underlying purpose of the thesis is to determine if free trade, as proposed in the FTAA, is possible in the region and will it really benefit all – or are these thoughts just pure ideals? Also from looking at such past attempts, it is intended to establish whether it is possible to integrate societies and economies that are completely different, such as the Bahamas and Mexico, to a level where each could benefit from free trade with the other.

You may be asking yourself why even bother discussing free trade. Would it not benefit all associated? While past attempts at free trade have shown that it may benefit a country as a whole, there are some within that country however, who may suffer with the changes in trade policy. A discussion of free trade in general, and the FTAA in particular, and their likely effects on the Bahamian economic, social and political structures is important for several reasons. Primarily, it fosters a better understanding of how small economies work and how dependent they are on their surrounding environments and on international trade. Such analysis also provides a medium whereby the viewpoints of small island nations, who usually do not have much of a voice in trade arrangements, can be expressed. It can highlight important issues that they could consider in their decision-making process of whether to engage in the agreement, and can highlight how they could increase their negotiating power. This thesis is also relevant and important as it allows the performance of an informed cost/benefit evaluation of the proposed Free Trade Areas of Americas agreement, by highlighting its potential positive and negative consequences on countries in the hemisphere. In so doing, it could highlight the challenges that policy makers may face in implementing such an agreement. A discussion of this nature will also expose the potential lessons that should be learnt from present free trade agreements in the hemisphere, before attempting to integrate the majority of the countries in the region.

The objectives of this paper will be accomplished through various basic research methods. The primary research methodology used will be that of historical-comparative research, which is probably the most effective way for addressing issues of such an archival nature. This method involves reinterpreting existing data and challenging

previous explanations of an issue or event. Historical comparative research is composed of many types depending on the comparative dimension, time dimension and kind of data. The type that will be primarily relied upon in this paper is that of single nation, present time and qualitative data. It involves numerous techniques such as searching past documentary evidence, finding new evidence, or assembling evidence in a different way.

The structure of the paper will be as follows. Chapter 2 will present an overview of the present state of the Bahamian economy along with its present pattern of trade and the factors contributing to such pattern. Following this, Chapter 3 will present a discussion on the nature of economic integration and trade liberalisation, showing the benefits and costs, and also lessons that could be learnt from past experience. Chapter 4 will then move into explaining the FTAA agreement – what prompted its formation, its purposes, objectives, the present agreements that it builds on, the major participants, the challenges it faces and future prospects. Following this, Chapter 5 will be a synopsis of the potential effects of the agreement on the Bahamas, looking at both the pros and cons of free trade in the country. This will be done based on the experience of other attempts at free trade in the hemisphere. The chapter will focus on the three different aspects outlined earlier – the economy, the society and the political structure. Among the topics that will be addressed are - economic growth, distribution of income, the impacts on the private sector, potential social changes, the reaction of the Bahamian people to such changes, the negotiation process of the Bahamian government, and the potential changes to government income. In concluding the paper, Chapter 6 will assess the validity of the thesis. This will determine if indeed free trade will serve its purpose - to integrate the Bahamas with its surrounding environment thus leading to an improvement in the overall

welfare of the country. Or alternatively if it would lead to a deterioration of the different aspects of the country, with some gaining and others losing.

**Chapter 2 – Description of the Bahamas**

## 2.1 General Overview & Background Information on the Bahamas

The Commonwealth of the Bahamas is an archipelago comprised of 700 islands, keys and rocks, located off the southeastern coast of the Florida Keys, covering nearly 100,000 square miles of the Atlantic Ocean. The closest point between the country and that of the United States is only 50 miles. The vast majority of the islands and keys are uninhabited, in fact of the 29 islands only 22 are occupied by individuals. The country is known primarily to the outside world for its sub-tropical weather, beautiful beaches, and white powdery sands, which makes it one of the leading tourist destinations in the world. However, it is comprised of a lot more than this.

Recent reports of the US Department of Commerce describe the country as a stable, upper-middle income, developing nation.<sup>1</sup> With a booming and growing economy, a highly skilled and educated population, and a history of stable political governance, it could be said that the country is poised to advance from its present status of a developing country to one of being developed. In the following chapter, three aspects of the Bahamas will be explored in more depth – these are its social, political and economic components. This information is presented to facilitate the reader having a thorough background knowledge of the country, so as to understand how free trade and proposed agreements such as the FTAA will impact these three facets of the country's structure. It will be shown that the Bahamas is more than just "sun, sand, and sea" and that the country has the potential of becoming world renown in the financial and international trading arenas. This will be accomplished by showing the various trading patterns of the country and also the increasing importance of trade in the economy.

## 2.2 Bahamian Society

Bahamian people are generally described as affectionate and friendly people, with the Bahamian society being described as one characterised by culture and religion. With its roots stemming from a mixture of African and European traditions the inhabitants of the country are very passionate about these two factors, as displayed from their lifestyles. There are numerous celebrations of culture and religion in the country, from its various parades, its public holidays or even its form of entertainment or dress. Regardless of its cultural and religious roots it is interesting to note that over the years the Bahamian culture and lifestyle has come to mock that of the United States. This is seen from the attire, entertainment choice or even the language used by the Bahamian population. Because of such similarity in culture and lifestyle the relationship that the country has with the United States has become vitally important, especially in the area of trade, as will be discussed later. Despite the seemingly peaceful nature of the people, they could become very vocal about certain issues that threaten their way of life. This is indicated from various social movements in the past such as the "Burma Road Riots" in the 1940s or the more recent "Black Wednesday" protest in the country. Both demonstrations were characterised by labour groups getting together to show their disgust over various issues.

Various factors could be used to indicate the level of social development within a country, from the size and growth of its population to literacy levels to general welfare or even general habits and lifestyles of its inhabitants. The population of the Bahamas for 1999 was estimated at 298,050, with the country being subject to an annual population growth rate of 1.65%<sup>2</sup>. The distribution of the population at this time was estimated as follows – 30% less than 15 years, 65.2% between the age of 15-64 years, and 4.8% at 65



years and over.<sup>3</sup> In looking at the level of education and literacy of this population, the majority of individuals within the country have at least a junior high school education, with 85% of people in the country being literate. Research has indicated that the remaining 15% of the Bahamian population cannot read or write.<sup>4</sup> In terms of general welfare, the majority of the households within the country are at the upper end of the middle class level, with a small percentage of the country living below the poverty line. This is indicated from the fact that the average household income of the country in 1997 (the latest available number) stood just over \$30,000.<sup>5</sup>

### **2.3 The Bahamian Political Structure**

The Commonwealth of the Bahamas is a British dependent territory, with Queen Elizabeth being Head of State. The Queen is represented in the country by a Governor General, which is an appointed position within the country. The country's dependency and historical tie to Britain is indicated from numerous factors, for example driving on the left-hand side of the road, or the observation of similar public holidays. However, the most important indicator of the Bahamas relations with Britain is illustrated from the fact that the country's political and legal system mirrors that of its mother country.

The Constitution of the Bahamas, which is the supreme law of the country, states that its political form should be one of a sovereign democracy. It requires that every citizen over 18, of sound mind, and being free has a voice in the political ruling of the country - through a vote. It also requires that elections be held at least every five years, with by-elections being held in the interim if necessary. Since the people elect the government, it represents the people and is responsible for running the public affairs of

the country within the context of the constitution. There are three segments of government as set out in the country's constitution. These are the *parliament*, which consists of the Queen, a nominated Senate, and an elected House of Assembly; the *executive*, consists of the Governor General and the Cabinet; and the *judiciary*, who functions to declare and apply the law. Government in the country is based on a two-party system – with a ruling party (having the majority of the electorate votes) and the opposition party – these parties comprised the House of Assembly. From amongst the ruling party, several of the elected representatives are chosen as Cabinet Ministers and are assigned various portfolios and responsibilities. This present political structure of the country is summarised in Appendix 1.

Politics is usually a very controversial topic in the Bahamian society, and has on numerous occasions been the source of very fiery debates amongst the electorate. The intense involvement of the Bahamian people in politics is indicated from the high participation rates in the last general elections that was held in the country in 1997, with 91% of the 129,947 registered voters actually casting their votes.<sup>6</sup> However, despite the passion that surrounds the political circle – the Bahamas has had a reputation for political stability even before its independence in 1973. In its over twenty-five years of independence, only two different ruling parties have headed the country. In addition to this, the stability of the country's political structure stems mainly from the fact that its government continues without a break even if the party in power before the election is defeated. The new government takes over smoothly and foreign companies/countries can therefore be sure that agreements made with one Bahamian government will be honoured by its successor.

In the 1997 general election of the country, the political party that emerged as the ruling party was that of the Free National Movement (FNM). This party, in the opinion of many, has done a lot for the country in terms of advancing it towards a first class status, in areas such as economic and social development. The primary accomplishment of this government however, has been that of encouraging direct foreign investment into the country in such areas as tourism, construction or oil refining. Other accomplishments also include improving infrastructure within the country, and the privatisation of major government corporations.

If one had to indicate a potential problem with the government, it would be the potential opportunity for corruption that exists. This is primarily because the present opposition party has too few members in parliament, five, in comparison with that of the ruling party, who has 35 seats.<sup>7</sup> This could result in the majority party having an indifferent attitude, as they always would have enough votes to defeat any opposition. It could also result in a power struggle amongst members of the ruling party, as they need not be united to defeat the opposition party. The overall effects of the present scenario could be that the government of the country as a whole might suffer. These behaviours are control to an extent because the maximum life of Parliament in the country is five years. Despite the "positives" and "negatives" of the present political structure, overall it could be said that it is effective. This is because it allows for the opinions of the general population to be expressed. Policy makers are usually held accountable for their actions; therefore, the business of the country is usually accomplished in an efficient manner.

## 2.4 The Bahamian Economy

In his recent communication to the House of Assembly of the Annual Budget for the country, Finance Minister, William Allen, made the following comment in reference to the Bahamian economy:

“It appears that the economy is clearly into a new era of sustainable growth consistent with low consumer price inflation, and enhancing prospects for further, substantial reduction in unemployment and continuing strong investor confidence...”<sup>8</sup>

The Central Bank of the Bahamas, the government banking regulatory agency within the country, supported this statement. In its most recent annual report, it stated that the economy of the country was continuing to grow at a healthy and moderate pace. The two primary measures of such growth in the country that was used by the Bank in reaching this conclusion were the Gross Domestic Product (GDP) and the Gross National Product (GNP), with the former being more widely used. In reference to the Bahamas, the GDP would be defined as the sum of the payment of Bahamian labour, capital, and land employed in the creation of the Bahamian economy, and when indirect taxes are included in the total it is known as GDP at market prices. On the other hand, the GNP differs as it includes the income of Bahamian capital earned abroad, while it excludes the contribution of foreign capital to the Bahamian economy. In evaluating these two measures of the country over the last decade of the past century, it could be seen that they

have been fairly constant with slight fluctuations over time as indicated in Appendix 2. This is especially the case with the GDP, which in 1998, the most recent publication of it, was estimated at \$4.12 billion. On a per capita basis, the GDP of the country for that year stood at \$13,702<sup>9</sup>.

Apart from the GDP and the GNP, other indicators of the economic health of a country could include such things as the national debt, levels of inflation, or the unemployment rate. For the Bahamas, these statistics varied as follows – in 1998 the national debt stood at \$1.733 billion, an increase of 2% over the previous year. However, in comparison to the early nineties, when there was a change in government, this figure has decreased significantly. In relation to the inflationary pressures that the country faces, it could be stated that it is quite low. This can be ascertained from the fact that the consumer price inflation in 1998 was registered at 1.3%, and has steadily averaged between one and two percent since the early nineties, as shown in Appendix 2. These facts have resulted in the Bahamas having one of the lowest rates of inflation in the Western Hemisphere. The level of unemployment is another indicator of the economic standing of a country. In the Bahamas, the latest available number for the unemployment rate showed it standing at 7.8% in 1998. This is the lowest rate that the country has ever experienced on record, and represents a substantial decrease from 11.5% that was recorded two years prior.<sup>10</sup> An analysis of prior unemployment rates of the country would illustrate that on average it has fallen more than one percentage point per annum, since it was first recorded in 1973, which is unparalleled in any small nation economy. The government of the country has indicated that it expects this decline to continue into

the future, especially as there are continued foreign investments into the country, especially in the leading industry of tourism.

In analysing the Bahamian economy, it is important to point out the major industries that are the contributors to its growth and development. The two major pillars of the country's economy are tourism and the financial services (offshore banking) sector. Tourism, which has been the country's "bread and butter" even before its independence in 1973, accounts for approximately half of the total GDP, with more than 3 million individuals visiting the country yearly. In 1997, such visitors injected \$1.4 billion into the Bahamian economy.<sup>11</sup> This sector of the economy also directly or indirectly employs half of the total workforce in the Bahamas, a number that falls somewhere around 50,000 people. Alternatively, the financial services sector, which is an up and growing sector, accounts for approximately 15% of the country's GDP. It has been speculated by some that this industry could be the future of the Bahamian economy, especially due to the increasing competition in the region for the tourist dollar. The importance of the sector to the government of the country is indicated in the following statement:

"The financial services industry of the Bahamas continues to evolve as a substantial and significant contributor to the productive output and economic development of our country..."<sup>12</sup>

There are presently 418 licensed banks and trust companies in the Bahamas – employing a little over 3,500 people. The total expenditure of this sector on an annual basis is in the

range of \$300 million, and includes such items as salaries and wages, administrative costs, utilities, maintenance and other costs.

Apart from these two major industries within the country, other relatively small industries with future potential include construction, agriculture and fishing, shipping, and manufacturing of chemicals and fragrances. From the above discussion of the contributors to economic growth and welfare in the Bahamas, it could be concluded that the economy of the country is primarily one that is service-based as opposed to industrial or manufacturing based.

In evaluating the resource basis of the Bahamian economy, it could be said that minerals and other resources are pretty scarce; however, salt and aragonite are the two most important minerals mined in the country. The quantity of aragonite in the country, which is an extremely pure form of calcium carbonate used in the manufacture of cement, concrete, glass and fertiliser, is estimated to be approximately 75 to 100 billion tons. This resource is mostly produced for export. Similarly, salt, which is primarily exported for use in the manufacture of chemicals and automobiles, was estimated around 1.2 million tons in the early eighties, being one of the largest deposits in the world at that time.<sup>13</sup> As seen in Appendix 3, salt is the second largest commodity exported by the country.

#### **2.4.1 The Importance of Tariffs**

Any analysis of the Bahamian economy would not be complete unless there is mention of the government's dependency on tariffs. The importance of tariffs to the Bahamian economy could be indicated from one single fact – that is more than 50% of

government revenues are derived from import and export duties. Imports seem to be the most vital source of funding, as illustrated in Appendix 4. In the 1997/98 fiscal year, the government raised over \$350 million from import duties, and expected by the 1999/2000 fiscal year, that this figure would stand at close to \$450 million. This dependence on trade taxes stems primarily from the fact that there is presently no form of income tax system in the country, which makes it unique in this respect.

Generally, the ad valorem tariff for imported goods is 35%, clothing 25%. Some items have higher or lower tariffs depending on their nature, while others are not subjected to such tariffs at all, but instead only have a stamp duty – which is usually 7%. There is a listing of some of the items that are taxed and those that are duty free but subjected to a stamp duty in Appendix 5. As seen it is usually luxury items that are taxed higher than staple or more generalised items.

## **2.5 Trade in the Bahamas**

### **2.5.1 Trading Patterns**

The importance of the global environment to the Bahamas is indicated from the fact that the country's economy is already very much integrated into the global economy and marketplace. This is shown from the fact that the two industries which accounts for almost 65% of the country's GDP, are entirely dependent on the international community for their demand. This factor indicates that trade and international relations are important to the survival of the Bahamian economy, and thus important to society and in turn to



politicians. As the country is relatively small in relation to its trading partners, it cannot influence its terms of trade, and presently imports substantially more than it exports, which results in an uneven trade balance. For example, in 1997 total imports were registered at \$1.622 billion, while exports were a meagre \$1.8 million<sup>14</sup>. From these figures, it could be seen that the country's imports far exceed its exports.

It is interesting to note who the major trading partners of the country are - from an analysis of such factors as geographical proximity or the existence of trade agreements, one could make a guess of which countries the Bahamas would conduct the most of its trade with. For example the United States, which is located less than 100 miles away or the European Union, with which the countries have several major trade agreements. In a perusal of Appendix 5 it could be seen that this hypothesis is true, as over half of the imports and exports of the country are accounted for by the United States, with the European Union being the second largest trading partner.

In analysing the imports of the Bahamas, it could be said that most of the products used by Bahamians on a daily basis are imported in some form, due to the restricted nature of Bahamian manufacturing to date. The country imports everything from food, clothing, machinery, petroleum products, other chemicals, and other manufactured articles, with machinery and transport equipment being the largest category of imports. Among the major category of exports for the country are included domestic commodities such as lobster, industrial salt, rum chemicals, pharmaceuticals, and aragonite, as illustrated in Appendix 3. As seen from the graph in the appendix, the first three categories are the major commodities for export within the country, with rum seeming to be falling off over the last several years.

#### 4.5.2 Present Trade Agreements

Due to its high dependency on trade, especially imports the Bahamas is presently a part of various trade agreements. The country is always on the look out for additional agreements that would provide it with the benefits it desires, without it having to give up too many concessions. As alluded to earlier, the country actively trades with many other countries within the hemisphere and on the other side of the world, which was shown in Appendix 6. Some of the more significant agreements that the country is a part of include the Caribbean Basin Initiative (CBI), the Caribbean Community and Common Market (CARICOM), Caribbean and the Lome IV Convention. There are also other agreements or trade organisations operating in the region that the country is not a member of, but is still considering its options to join – such as the World Trade Organisation. It is important to understand the nature and conditions of such trade agreements or organisations, as it is the utilisation of them that is probably one of the most important factors in attracting new industries and investments to the country. By opening the Bahamian and also other participating countries borders up, either through reduced tariffs or other special provisions, such agreements allow for a larger marketplace for the exports of Bahamian manufactured goods.

One of the more popular trade initiatives in the Caribbean region that the country is a quasi-member of, is that of the Caribbean Community and Common Market (CARICOM). This organisation has its roots in the Caribbean Free Trade Association (CARIFTA), which emerged in the late fifties and early sixties. Despite its longstanding

history, the Bahamas did not become a member until 1983, and even then, it did not join the common market aspect of the organisation, which could be said to be the integral part of the organisation. CARICOM, as a functioning organisation has three primary objectives, these are as follows:

- Integration of the economies of member states;
- Functional co-operation in areas such as education, health, air transportation, and labour relations; and
- Co-ordination of foreign policies.

It could be said that in light of these objectives which all ultimately aim at increasing trade liberalisation within the region, that CARICOM has been somewhat ineffective. It has been a paper agreement more or less. However, as we enter this new century, which is filled with economic uncertainty and increasing technological change, member countries are beginning to realise the importance of the concept of strength in numbers. The first objective of CARICOM is primarily accomplished through the common market aspect of the agreement, and as the Bahamas is not a part of the common market, it has not taken part in the effort towards integration to the same extent as other member countries. This is reflected from the fact that the country has not entered any joint economic initiatives with other Caribbean states since its signature of membership in the early seventies.<sup>15</sup> Despite this fact however, the country has been quite committed to the latter two objectives of this regional initiative and participates to a strong degree in the political aspects of CARICOM. Consequently, to date the country has been able to

maintain close ties and good relations with its Caribbean neighbours through this initiative.

The Bahamas received designation as a beneficiary of the U.S. Caribbean Basin Initiative (CBI) in 1985. This initiative was established in the early eighties with the purpose of stimulating investment in non-traditional industries in countries that provided goods to the United States. The principal initiator of this trade initiative was the US, and it allows duty-free import of most products that is shipped from the Caribbean area, including the Bahamas. Some of the Bahamian exports currently benefiting from this CBI agreement are chemicals, seafood and pharmaceuticals. In 1997, the total of imports by the US from the Bahamas amounted to some \$153 million. However, it could be said that the high wage rates that are present in the country combined with its limited manufacturing sector have stalled its ability to utilise the benefits of this agreement.

Caribbean is another trade agreement to which the Bahamas is a beneficiary member. It is similar to the CBI Initiative in terms of its goal and objectives, with the major difference being it is the initiative of the Canadian government as oppose to the American government. With the main aim of increasing trade between Canada and the Commonwealth Caribbean countries, this agreement allows for the duty-free imports of certain goods into Canada from the designated member countries, similar to the CBI agreement. The major item that the Bahamas exports to Canada, is that of organic chemicals. For the period between 1996-98, the total exports of the country to Canada amounted to a yearly average of \$12.65 million, while imports over the same period was an average of \$15.65 million per year.<sup>16</sup>

The Lome IV Convention is a comprehensive trade agreement between the African-Caribbean-Pacific (ACP) countries and the European Union (EU). It was ratified by the Bahamian government at the end of 1989, and is expected to expire in 2000. The agreement contains a wide array of industrial, financial and trade co-operation principles. It facilitates products from the ACP countries, including the Bahamas, to be imported free of customs duties, import charges or quotas into the EU – with the exception of agricultural products which only receives preferential treatment. The most interesting aspect of this agreement is the fact that it is non-reciprocal in nature, in that it does not require the developing partners to establish the same trade concessions that are granted to them by the European Union<sup>17</sup>. This trade agreement has given the Bahamian products access to some of the world's largest markets, and has in some ways given them a competitive advantage over US producers. Due to the upcoming expiration of this agreement, efforts are now underway to negotiate a successor agreement that upholds its basic principles.

From an analysis of these four agreements, several observations/implications could be highlighted. Firstly, it could be seen that the country has limited trading arrangements with major countries like the United States, Canada or those within the European Union. This could indicate that increased trade within the region could have an impact on the country, as it would introduce new major trading partners. Secondly, it could be seen from the above agreements that the Bahamas does not really give up much in the way of import concessions, but rather plays the role of being a developing country looking for favours from the more developed ones. Such one-way arrangements, which

are usually initiated by the more developed countries, indicate that The Bahamas may not be all that committed to the movement towards free trade and economic integration.

Before concluding this section on the trading patterns of the country, it is important to look at the relation that the country has with the World Trade Organisation (WTO). This is one of the more prominent trade arrangements in the hemisphere, whose aim and objectives include increasing economic integration and facilitation. The organisation's task is to administer and enforce the trade agreements made by member nations, ensuring freer flow of goods and services, with its rulings being law among member countries. It is interesting to note that despite the Bahamas dependence on trade, it is the only country in the hemisphere that is not a member of this organisation.<sup>18</sup> Why is this the case? Is the government of the country afraid of giving up a part of its number one revenue maker, or of the country losing its status as a leading tax haven in the world? The current position of the Bahamian government in relation to the WTO is one of an "observer" status – with the view of obtaining full membership in due course.<sup>19</sup> The country's position in relation to the WTO, coupled with the fact that it really does not take a proactive approach to liberalising trade, could be used to indicate that policymakers within the country may feel that the concessions that would be demanded of freer trade would not support the benefits to be derived from it.

As a conclusion, it could definitely be said that the Bahamas is socially, politically and economically poised for further development during the twenty-first century. The country despite having some limitations in these areas seems to be in a position to experienced continued growth. In addition, despite its limited involvement in trade liberalisation to date, it could be proposed that the country stand to gain more than

it lose from such integration and liberalisation. However, it is interesting to note exactly what will be the social, political and economic implications of economic integration on such a small country as the Bahamas – this is what lies ahead.

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Notes

- <sup>1</sup> Bahamas Handbook, 2000, Ettienne Dupuch Jr. Publications Ltd., 1999.
- <sup>2</sup> Department of Finance, The Bahamas in Figures 1998 (Nassau: Department of Statistics, 1997)
- <sup>3</sup> The Bahamas in Figures 1998, 2. & Ministry of Finance, Department of Statistics & Commonwealth of the Bahamas Statistical Abstract (1997), (Nassau: Department of Statistics, 1996).
- <sup>4</sup> Ministry of Finance, 1990 Census of Population & Housing (Bahamas), (Nassau: Department of Statistics).
- <sup>5</sup> Ministry of Finance, The Bahamas in Figures 1998, 18.
- <sup>6</sup> Ministry of Finance, Bahamas Statistical Abstract (1997), 14.
- <sup>7</sup> Ministry of Finance, The Bahamas in Figures, (i)
- <sup>8</sup> Ministry of Finance & Economic Development, The Bahamian Government Annual Budget, 1999-2000 Fiscal Year [online database] (Nassau: May, 1999) [cited 5 January 2000]; Available: <http://www.fnbahamasfacts.com/budget.html>
- <sup>9</sup> Bahamas Handbook 2000, 445
- <sup>10</sup> Ministry of Finance & Economic Development, Government Annual Budget.
- <sup>11</sup> Bahamas Handbook 2000, 496.
- <sup>12</sup> Ministry of Finance & Economic Development, Government Annual Budget.



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<sup>13</sup> Ministry of Finance, Statistical Abstract (1997), 15

<sup>14</sup> Ministry of Finance, Bahamas in Figures, 1998, 4-5.

<sup>15</sup> US Department of Commerce, Trade Regulations and Standards [database online] (STAT USA on Internet, 16 October 1997 [cited 17 December 1999]); available from World Wide Web @ <http://strategis.ic.gc.ca/SSG/da90107e.html>

<sup>16</sup> Bahamas Handbook, 2000.

<sup>17</sup> The World Bank Group, Liberalisation of Trade in Goods: Links to Growth, [database online] (The World Bank, 1999 [cited 9 February 2000]); available from the World Wide Web @: [http://www1.worldbank.org/wbiep/trade/RI\\_map.html#north-south](http://www1.worldbank.org/wbiep/trade/RI_map.html#north-south)

<sup>18</sup> Richard Fisher, Ambassador, The FTAA: A Commitment to Fair and Open Trade [database online] (US Embassy, 11 March 1998 [cited 20 November 1999]); available from World Wide Web @ <http://www.usembassy.cl/fisher.htm>

<sup>19</sup> Bahamas Handbook 2000, 574.

### **Chapter 3 – Nature of Trade Liberalisation**

### 3.1 Trade Strategy & Movement to Trade Liberalisation

One of the most noteworthy characteristics of the latter half of the past century was the sustained growth in world trade. During this period, many countries, both of a developed and developing status, came to realise the importance of trade and of opening their borders to allow the exchange of goods and services. They realised the need for facilitating the co-operation between themselves in important areas of life, such as political freedom, education and health care, to promote the progress and development of the world as a whole. This move towards liberalisation and increase trade primarily took place during the post-war period and was preceded by closed economies and borders. What is the process that led countries in the hemisphere from having closed economies to moving towards strategies that expanded and open their markets and borders?

There are numerous approaches and strategies to trade, and many countries, especially developing ones like the Bahamas, saw a linkage between the trade strategy that they adopted and their development strategies. During the early twentieth century, such developing countries opted to adopt an import-substitution strategy as an approach to economic development. Under this approach, they imposed high tariff and non-tariff barriers against imports in order to protect growing domestic industries, thus becoming more industrialised and developed.<sup>1</sup> Countries that usually adopted this approach were mostly agricultural in nature and exporters of primary commodities.<sup>2</sup> A good example could be found in the Bahamas, as exemplified from the high tariff rates that were present in the country, initially and still to some extent today, to protect such domestic industries as fishing and agriculture. In understanding the basis of liberalisation and international

trade, it is necessary to discuss why and how countries move from such a strategy as import substitution to a more open, export-oriented strategy.

Due to various problems associated with the import-substitution approach, many developing countries have opted for an export-promotion strategy. They have thus move away from protecting highly inefficient domestic industries and have open their borders to allow goods and services to flow more freely. One characteristic problem of the import-substitution approach, exemplified from the Bahamian situation, is that it tended to given bureaucrats a lot of judgement in determining which industries deserved protection from foreign competition and also in allocating scarce foreign exchange reserves.<sup>3</sup> Apart from the obvious problems associated with such bureaucracy, like corruption and unnecessary delays, other problems stemmed from the approach. These included such things as the underdevelopment of the export sector, stagnated growth, and mixed empirical results. Despite its promise of protecting infant industries, this strategy in reality resulted in most new resources being pulled into import-competing industries away from the export sectors, which caused growth in these sectors to lag. Therefore, while production was encouraged for domestic consumption, it was not encouraged for export. Secondly, due to the restrictive nature of import-substitution policies in terms of trade, most adopters of this approach continued to experience stagnated growth; faced reduced sources of foreign capital and were being locked out of technology advancements. Finally, while the usual argument to support import-substitution is that competition from more industrial countries may inhibit development, empirical evidence has shown something to the contrary. It has shown that heavily protected industries in less developed countries fail to obtain efficiency, while unprotected industries often

thrive.<sup>4</sup> Due to these and other related problems, many countries began to adopt liberated approaches to trade. They began to turn to export-led growth as the means of overcoming internal capital deficits and high foreign debt, and as a means of accomplishing a higher level of economic development.

In addition to the problems discussed above, countries started to switch from import substitution to a more trade oriented approach due to the fact that those that were following the path of trade liberalisation were experiencing increasing growth rates. For example by the early 1960s a few then-developing countries had abandoned imported substitution and had adopted outward-oriented trade strategies – resulting in spectacular growth for themselves.<sup>5</sup> In fact, an analysis of the World Bank of 41 economies over the period from 1963 to 1985 showed that outward-oriented economies performed substantially better than inward oriented ones.<sup>6</sup> From this, one could hypothesise that trade liberalisation and economic growth or development are directly correlated. Is this indeed the case? It seems to be proven from past experience that countries involved in integration usually experienced increasing growth rates in their economy. However, it is important to point out that foreign trade policy, despite stimulating economic development in many ways, should not be the central issue in the development process. Instead, the internal economic, social and political environment should be conducive to growth.

### **3.2 Approaches to Trade Liberalisation**

It has been shown that many countries are beginning to realise the importance of liberalisation and of opening their domestic borders – and that such liberalisation can

result in direct economic growth in some sectors and overall in a country. This covers the question of *why* countries are moving away from closed economies to ones that are more open. However, the question remains as to what approaches to liberalisation are available for countries to take – that is *how* can such liberalisation be accomplished? Two basic approaches to trade liberalisation and free trade could be identified – these are the *international* approach and the *regional* approach.<sup>7</sup> Before a discussion is launched into each of the two approaches, it is necessary to highlight three facts about such approaches to trade liberalisation. Firstly, they result in freer trade and not necessarily free trade. This is because not all trade barriers are eliminated, and often there are other factors such as government subsidies of domestic industries or import/export quotas, which serve to act as non-tariff barriers. Secondly, such arrangements serve as a means of hedging – that is they provide a way for countries to ensure access to certain markets in the face of risks of changing international trading environments. This is especially important for small countries like the Bahamas. Finally, there is little support for arrangements between countries at different levels of economic development, and most of the attempts at liberalisation to date have been done between countries at similar levels of development. This last point is probably particularly relevant, as it indicates a potential downfall or problem with the proposed FTAA arrangement. However, NAFTA has served to show that it is possible to create a reciprocal free trade agreement between developed and developing countries (Schott, 1997) as will be demonstrated shortly.

### **3.2.1 The International Approach**

The international approach to free trade is concerned with the promotion of international trade in general and the reduction of trade barriers in particular. It takes a

non-discriminatory attitude to tariff reduction, with the aim of increasing worldwide productive efficiency by ensuring that countries within the world move to specialise in areas where they have a comparative advantage. Under this international approach, the gains from liberalisation and free trade may not be equally distributed, with those countries that make the biggest reduction in tariffs gaining the most. In addition, some sectors within a particular country may lose to the benefit of others. However, the important point is that there is a gain to the world as a whole. This approach was adopted by such institutions as the General Agreement on Tariffs and Trade (GATT) formed in 1947. The aim of GATT was that of providing an international forum that facilitated free trade between members through regulations and tariff reductions. To date the agreement has over 110 member countries, and recently became transformed into the World Trade Organisation. This newly formed multilateral body promotes the objective of worldwide free trade instead of bi-lateral or regional attempts at trade liberalisation.

### **3.2.2 The Regional Approach**

The regional approach to liberalisation is usually exemplified through either a customs union or a free trade area. A customs union involves two or more countries that abolish all or most all of the trade restrictions among themselves and set up common external tariffs for non-members – a good example is found in the European Union (EU). Similarly, with a free trade area, all or most trade restrictions are removed, however, there is no common external tariff against non-member countries, and each member is free to impose its own duty. This type of arrangement is exemplified by NAFTA. The important difference of this regional approach from the international approach is that it is

takes a discriminatory attitude to tariff reduction, and thus may or may not lead to a gain in world welfare. Since regional economic integration is limited to only a part of the world, welfare is increased, but not maximised. This approach will be the prime focus of this paper, specifically the free trade area aspect of it, and thus will be discussed in some detail here.

During the last few years of the past century, the number of countries belonging to regional blocks increased drastically. In fact, the member countries of such regional trading blocks accounted for more than  $\frac{1}{2}$  of the global trade at that time.<sup>8</sup> Many developing countries support the regional approach to trade liberalisation - primarily because they see it as a means of expanding their domestic markets. This is evident from the attempts of the Latin American countries in the Western Hemisphere since the early 1980s in restructuring their economies, opening up their borders and tearing down barriers to trade. Also developing countries view regional trade agreements (RTAs) as a way to secure large markets of their neighbouring trade partners so as to avoid the possibility of higher trade barriers in the future. The enthusiasm over such arrangements also be said to stem partially from the fact that they are often created with the goal of benefiting their members and not necessarily of improving global trade. Regional arrangements usually revolve around trade in industrialised goods and some agricultural products and, to a lesser extent focus on such areas as services and investment. This is clearly exemplified from the recently implemented NAFTA agreement, which focused on all of these areas to a certain degree.<sup>9</sup>

Supporters of this approach to trade liberalisation usually argue that regional trading blocks create greater specialisation and thus greater productivity. This in turn



leads to increase income and thus demand for imports – overall effect is that it creates more international trade. On the other hand there are those that oppose regionalism, arguing that even if it does increase international trade, most, if not all, of the increase is between member countries, and non-member countries do not benefit. This view is supported from the fact that the discriminatory nature of regional trade agreements often results in them having negative impacts on non-members. They tend to favour trade with certain countries more than with others based solely on such factors as geographical location or political connections. Despite the disparate views and fiery debate between these two different factions, it could be speculated that within the future, the fundamental purpose that such regional arrangements will serve would be that of a stepping stone to larger scale integration. This last point illustrates that regional integration and multilateral arrangements under the international approach could co-exist. It seems that the future agenda for world trade would most likely involve such a dual approach. Now that it has been shown why and how trade liberalisation came about, it is interesting to launch a discussion into the potential benefits and drawbacks of such liberalisation.

### **3.3 Pros & Cons of Economic Integration**

The twentieth century saw the advancement of many attempts at economic integration, which was accompanied by many arguments for and against free trade. While some convincingly put forth the advantages that free trade and liberalisation offer others were just as persuasive in showing the potential disadvantages of such liberalisation. It could be concluded that while there are strong pro- and anti- integration

factions, integration alone would not threaten or revive any country. However, it is an important contributing factor to the country's well being. It is important to realise that free trade could have both benefits to some sectors of a country, while negatively affecting others. In the following paragraphs, the general benefits that free trade could offer a country, especially a developing one like the Bahamas, will be discussed. This will be followed by a discussion of the potential negative impacts of free trade – and to which sectors of the society such impacts will affect.

### 3.3.1 Benefits of Economic Integration

Reasons for creating trade links and integrating economies are quite clear – history has shown that there is strength in numbers and that isolationism and protectionism usually results in economic instability and decreased welfare for citizens. Take the example of Cuba for instance, a country that is still rule by communism and virtually isolated from its surrounding environment, and as a result having one of the worse economies and social structures within the hemisphere. For example, the GDP per capita for the country for 1997 was only \$1,540<sup>10</sup>. The benefits of free trade could generally be classified as two types – *static* benefits and *dynamic* benefits. Static benefits are welfare gains arising from a marginal reallocation of production and consumption patterns under free trade – it focuses on the gains from trade creation over losses because of trade diversion.<sup>11</sup> Such static benefits are usually recognised in the short-term, and show that free trade usually allows countries to export those goods and services that they can make efficiently, and to import those that they cannot. The dynamic gains from

integration and free trade, which are more long-term in nature, relate to the effects of integration on the rate of economic growth, which is usually measured by the change in Gross National Product (GNP). They are concerned with the increases in productivity because of larger market areas or increased local and foreign investment. Such dynamic gains could also include things such as increasing economies of scale, specialisation, and the increasing use of technology – factors that could be tied directly to growth.

From this broad division of the gains from free trade, one could move to a lower level of analysis to look at specific gains from free trade and integration. Such specific gains could be looked at from three different perspectives – social, political, and economic. One of the more common benefits from free trade and economic integration that is usually advanced from a social perspective is that society as a whole usually benefits in the form of lower costs/prices for goods and services and from a wider range of goods to choose from. The reasoning behind this is as follows - as liberalisation usually involves an opening up of a country's borders, this introduces foreign competition for local producers, which in turn weakens any anti-competitive tactics that are present. Therefore, local producers no longer operate in near states of monopoly – thus they can no longer cut corners in quality, run up costs, and charge exorbitant prices but are forced to change slack management styles and views.

From a political viewpoint, a particular gain from integration that could be argued persuasively is that it results in growing prosperity to be attributed to the government. This in turn allows for a raise in the standards of living in the country. Additionally, participation in the regional or world market also brings with it the free flow of information – which can be important from a political stance as it allows for sound and

effective decision and policy making. Also through such integration democratic governments could join forces in providing essential services such health care or education, and in achieving an overall increase in world welfare.

Finally from an economic viewpoint, the major support or argument for free trade is that it results in growth in the economy – this is directly related to the dynamic benefits of free trade discussed earlier. There is a general belief that liberalising a country's economy will result in more economic opportunities and possibilities for it, and will allow for it to operate at a more efficient level in terms of allocating and obtaining resources. Other possible economic benefits are that free trade usually results in higher wages and more stable employment. Proponents support this argument by looking to such empirical evidence like that provided from NAFTA. The US Department of Commerce has reported that job growth has surged in all three of the member nations – by 7% in the US, by 10.1% in Canada, and by 22% in Mexico<sup>12</sup>. It is interesting to note the biggest winner in this area – that being the least developed of the three countries. The basis of this argument is that increase exports in a country tend to demand a higher requirement for labour and that such export industries are able to pay higher salaries due to increased growth. It is suggested that export-oriented firms overall tend to have more stable employment patterns, when compared to seasonal or inefficient domestic industries. Another major economic benefit launched in the support of free trade is that it encourages direct investment primarily through the attraction of large multinational firms<sup>13</sup>. It has also been shown to improve productivity – due to the specialisation and division of labour that results from trade liberalisation. The traditional argument for trade is used here - in that countries can mutually gain from trade if they follow the principle of

comparative advantage. That is each specialises in those goods that it can produce most efficiently and ceases production of those goods that are more efficiently produced elsewhere<sup>14</sup>. Finally, from an economic viewpoint it could be said that because of liberalisation countries could now produce on a larger scale, and that such mass production allows for economies of scale to take place. This is especially prevalent in smaller integrating countries, which, due to larger export markets, would now be able to industrialise their economies.

### **3.3.2 Costs of Trade Liberalisation**

Critics of free trade argue that it favours developed countries and multinationals, while creating dependency and insolvency for developing countries and individual households.<sup>15</sup> They state, with some basis, that if a country is not made up of identical individuals, opening it up to international trade may hurt some people. They show that according to the ideology of free trade as tariff barriers fall everyone benefits – production increases, income rise, prices on consumer goods fall, and there is a move towards full employment. However, they argue that in reality this is not what happens, as there are often unintended consequences when dealing with complex international markets. The most recent opposition to free trade was demonstrated from the WTO Millennium Round held this past December in Seattle. Many term this meeting as a failure due to the massive and sometimes violent demonstrations that were launch against it. Protesters included various sections of society such as human right activists,

environmentalists, labour unions, and various other NGOs<sup>16</sup> and indicates that not everyone within society supports trade liberalisation.

From a political perspective the major problem launched against liberalisation, is the lost of political sovereignty. This is especially a problem for developing countries who usually have little negotiating power in free trade arrangements. Another political drawback of liberalisation deals with the fact that policy makers are faced with making decisions in relation to trade policy whereby some groups are hurt, while others gain. Another negative political implication that has been suggested is that integration could be looked at from the viewpoint that it is a ploy by the larger industrialised countries to force the less developed countries to lower their protective trade barriers and to expose their already fragile industries. The basis of this argument stems from the fact that industrial countries tariff rates are already low, and thus they really do not stand to lose anything in such trade negotiations.

From an economic position, the usual groups to oppose free trade within a country includes organised labour in the form of trade unions, environmentalists, small manufacturers and businessmen and an assortment of human rights advocates – as alluded to above. Each have different concerns and agendas, but their overall mission is to highlight that free trade and liberalisation may not necessarily be good for all members in a society. These groups usually protest against liberalisation for varied reasons such as fear of job loss, degradation of society, increased competition or fear of exploitation of the underprivileged. It is interesting to highlight that specifically from a developing country's perspective an additional negative economic effect of trade liberalisation is that it could result in divergence of economic activity, whereby the gains from integration are

distributed unevenly. This is due to the fact that the integrating area consists of countries at different stages of development, and that new industries and other economic activity generated from integration usually drift towards the most developed centres in the agreement. This could in turn have the effect of allowing those areas that were most advanced to begin with, to dominate the liberalisation process.

If some individuals gain from opening up the country's borders to international trade while others lose, what about the country overall? While there are some bases behind each of the advantages and disadvantages illustrated above, it could be said that each could be argued for and against and also that in some instances they may contradict each other. It is impossible to make clear-cut statements such as integration is good or bad for a country. It is not my purpose to argue either way, but just to present the potential effects that integration, and the trade liberalisation that usually accompanies it, could have on a country. In the final analysis it all depends on the exact situation, to determine whether the benefits of integration will outweigh the costs. That is, it is necessary to evaluate the specific plan at integration and to look at it from the point of view of those that will be affected by it. This will be done in the two subsequent chapters, in that the FTAA agreement will be analysed in detail and then its potential impact on the Bahamas will be discussed.

### **3.4 Lessons From Past Integration Attempts**

People often say that one way to avoid repeating mistakes is to get a thorough understanding of the past. Therefore, before making any attempt at economic integration in this hemisphere, it is important for policy makers to have a grasp of the success and/or

failure of past regional trade liberalisation attempts. They need to learn the strengths and weaknesses of such past attempts, and how to build on them. Three agreements that serve to be excellent examples are the European Free Trade Association (EFTA), the European Union (EU) and the more recent North American Free Trade Agreement (NAFTA). These agreements, while only a small representation of the various integration agreements in operation, can show what can be learnt from past experience and could indicate what a probable future course for trade liberalisation should be. In this discussion, it is possible to highlight some lessons specifically for developing countries. For example, one of the more obvious or important lessons that applies to small developing countries from past attempts is that it is very difficult, even though not impossible, to create a true and effective free trade area amongst small or medium sized developing countries. This stems primarily from the fact that many less-developed countries depend on custom duties and tariff revenue for a significant portion of their fiscal income. Thus, it is therefore necessary to work out procedures to ease the facilitation of these lesser-developed countries in the integration process.

#### **3.4.1 The European Free Trade Association**

The European Free Trade Association (EFTA), while being located on the opposite side of the world could provide some important lessons for any attempts at regional liberalisation in the Western Hemisphere. The EFTA is a free trade area encompassing such countries Sweden, Norway, Switzerland, Finland, Iceland, and Austria. The challenge of the agreement was how to integrate 18 countries of Western Europe, each with different languages and cultures – and also in the presence of an



environment that was known for bitter conflict, wars, an enmity. Such diversity had to be overcome before the region could see the benefits of economic integration and co-operation. However, it has been over three decades since the agreement was initiated, and in some ways, the process of integration is far from complete. The major contribution of the EFTA to the process of regional integration is that it has shown that the creation of a free trade area and economic integration is possible, and can be successful without having traumatic effects. However, this is true within certain limits. These limits are indicated by the nature of the agreement, in that it is a free trade agreement in relation only to industrial goods.

General lessons that could be drawn from the experience of the countries in this free trade area, which has been primarily successful, are outlined below. One of the more important lessons is that free trade between countries that are subjected to extensive market-intervention policies from the government usually produces unacceptable distortions. This illustrates the importance of making necessary political policy changes in the face of economic integration – such as the privatisation of major government or federal departments. In fact, it has suggested by Krueger (1998) that for the full impact of the gains from liberalisation to be felt, it is necessary for countries to implement additional policies that support liberalisation. That is it may not be enough to simply reduce import and/or export taxes – policy makers may have to make additional policy adjustments. Foremost amongst such adjustments is a change in the nominal exchange rate. Other areas of changes include infrastructure, labour market regulations, reform of tax laws, and changes government procurement policies.

Another fundamental lesson that has been displayed from the EFTA experience is that economic integration takes an extensive transition period, as it requires major structural adjustments within the borders of the member countries. It shows that not everything can be accomplished immediately. This is especially the case when the countries to the agreement are at different levels of economic development, as is usually the case in most regional attempts at trade liberalisation, and as will be the case with the FTAA.

Apart from the above general lessons, the agreement also demonstrates lessons on a more technical level, which could be outlined as follows:

- ◆ Origin rules can be devised that are not too difficult to administer. The important element in such rules is that a choice has to be provided and that they are not too rigid.
- ◆ Formal dispute settlement procedures, despite rarely being used, should be set up in the structure of an impartial panel procedure – this is especially necessary when the agreement involves countries at different development levels.
- ◆ It is necessary to have clear rules established in relation to all possible sources of non-tariff barriers which could still prove to be a hindrance to free trade. This includes such areas as government subsidies, government procurement, antidumping and countervailing measures, and other technical barriers to trade. It is only when rules are clearly defined for such areas that dispute could be avoided.

- ◆ Attention should be given to the private sector in the negotiation of such agreements, as it could serve to be an obstacle to trade liberalisation, as it could act in a protective manner. That is members of the private sector could opt to do business with local suppliers, ignoring any new foreign firms. This may also indicate the need for antitrust laws.
- ◆ Finally, free trade between countries could be accomplished without the loss of political sovereignty. Despite this being outlined earlier as one of the disadvantages of free trade, the EFTA process has shown that it is not necessarily the case. The agreement has demonstrated that integration could be accomplished without the harmonisation of laws, and that a large degree of diversity could still be maintained. It shows that the centre of sovereignty does not change – it remains within the country, with the government and with the people.

In reviewing all of the lessons from the EFTA it could be said that the proposed FTAA agreement has taken such points into consideration as the agreement “touches” on all of the areas that are highlighted above. This will be illustrated in the following chapter.

### **3.4.2 The European Union (EU)**

In a discussion on past regional attempts at trade liberalisation, one of the best examples would be that of the European Union (EU). Like the EFTA, it also serves as an example of integration in Western Europe – but unlike it, it is not a free trade area, but rather a customs union. The EU has its roots in the European Economic Community (1958), which was formed with the objective of increasing economic growth in countries

such as Germany, which were faced with various military problems. The EU involves the integration of fifteen member countries, and over its years of operations has become a significant player in the world economy. This regional agreement represents approximately 95% of the output of Western Europe and accounts for a largest share of the world trade in comparison with any other region.<sup>17</sup> The increasing importance of this regional custom union is indicated from the fact that efforts are presently underway to enlarge it to include other neighbouring countries within the region. For example, various member countries of the EFTA are lobbying to be a part of the EU.

In its operation, the EU has highlighted several important points that could be used by future policy makers in their attempts at regional trade liberalisation. These are outlined below:

- ◆ Regional trade agreements could both result in trade creation and trade diversion. Sapir (1993)<sup>18</sup> notes that the EU has resulted in trade creation in the industrial sector while the agricultural sector suffered from trade diversion. However the union has shown that trade creation usually exceeds trade diversion (Kapoor & Swanson, 1996).
- ◆ Regional attempt at trade liberalisation is usually accomplished over a period of time through the establishment of various sub-regional agreements that eventually emerged to a higher-level integration agreement. A similar lesson was highlighted from the EFTA.
- ◆ Developing countries, in the process of moving towards liberalisation could establish various preferential agreements with more advanced nations (ex. Lome Convention). However in these cases, developing countries usually

have to make various concessions such as accepting the political costs of free trade. These usually include giving up the right to reserve few, if any sector, and accepting the regulatory framework of the larger group.<sup>19</sup>

- ◆ The welfare effects from liberalisation and integration could be increased if other actions are taken in conjunction with the removal of trade barriers (Smith and Venables, 1988).
- ◆ Integration is an iterative process; therefore, not all the important issues are dealt with initially, but as the countries become more integrated new concerns are usually added to the trade agenda. In addition, issues that are not directly related to trade could be addressed in regional trade agreements.

### **3.4.3 North American Free Trade Agreement (NAFTA)**

One of the more recent and successful attempts at regional integration within this hemisphere is that of the North American Free Trade Agreement, which involves the three largest trading partners within the region – the United States, Canada and Mexico. The general objective of the agreement was for all the member countries to eliminate all tariff barriers between them over a fifteen-year period. The agreement set a precedent, as it also focused on such areas as reduction of non-tariff barriers, the liberalisation of cross-border investment and other areas such as dispute settlement, and intellectual property. Since NAFTA was only implemented at the beginning of 1994 it is far too early to reach an objective assessment on the success or failure of the arrangement. Nevertheless, it is possible to distinguish a few important lessons from the operation of this agreement to date.

One of the more important observations that could be highlighted in relation to NAFTA is the important role that information could have on the trade liberalisation process and in a country's acceptance of it. For example, the difference between the relatively optimistic Mexican response and the cautious Canadian or American responses to the agreement could probably be explained by the fact that Mexicans had almost no information on which to base their estimations of how their lives would change by it. It could also be explained by the fact that Americans and Canadians were subjected to unfounded propaganda in relation to free trade and its effects. This observation in turn highlights the important role that the government of a country could play in implementing a liberalisation scheme. That is a strict regime like that in Mexico, who tells the public only what it wants it to know, versus a more open and democratic system like that present in the US, which is based on freedom of speech, could result in the electorate having differing opinion or reaction to the proposal of free trade. NAFTA also highlights that it could be difficult to predict exactly which sectors of an economy will gain or lose from free trade. This is primarily due to the dynamic nature of international trade, which could have many unintended consequences.

In concluding this discussion on NAFTA, it could be said that the agreement to some extent also supports the various positive aspects of free trade that were presented earlier. Firstly, it gave first hand evidence that once all the necessary ingredients are in place for complete economic integration, that all member countries would experience increase growth and employment - although it is possible for some to benefit to a greater extent. This is demonstrated from the growth rates in employment in the three economies to date, as was indicated earlier in the chapter. Secondly, the agreement demonstrated

that labour productivity and wages are higher in firms that operate in the export industries within a country, as oppose to other industry sectors. It has also served to show that economic integration does lead to comparative advantage and increase efficiency and productivity for countries. This is because member countries are forced to regulate their production and to specialise so that the flow of goods and services is determined on the grounds of efficiency rather than by trade restrictions. A final observation of NAFTA that lends support to integration is that it could result in increase investment flows for member countries. For example, the combined investment of the three countries to this agreement in each other increased by more that fifty percent over a four-year period of the operation of the agreement, to a total in 1997 of approximately \$192 billion.<sup>20</sup>

It is impossible to generalise the results from past experience due to the variable nature of international trade policy. However, from the above discussion of some of the largest attempts at regional trade it could be seen that there are many points that could serve to be of interest to policy makers as they negotiate future economic integration arrangements. One can see how useful such a discussion could be especially from the viewpoint of developing countries such as the Bahamas, as it allows them to focus on what there main concerns should be in negotiating any future arrangements. In general, it could be said that past experience and the lessons from these comprehensive agreements have tended to support the benefits of trade liberalisation over its costs. They should therefore be the starting point for any negotiation towards a Free Trade Area of the Americas agreement.

It is now possible to move from these generalised lessons of past experience, being equipped with a knowledge of trade theory, and move to a more specific level to

hypothesise what the likely effects of integration would be on a particular country. This is what will be accomplished in the remaining chapters. First, the nature of a proposed regional integration agreement, the FTAA, will be outlined. A view of the potential impacts of this agreement on one specific country, that of the Bahamas, will then be presented. Finally, it will be stated whether the country will be integrated or ruined by free trade and integration.



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### Notes

<sup>1</sup> M. Kreinin, "Selected Trade Problems of Developing Countries" in International Economics: A Policy Approach, 6<sup>th</sup> Ed. (San Diego: Harcourt Brace Jovanovich Publishers, 1991), 416-421.

<sup>2</sup> Anne Krueger, "Why Trade Liberalisation is Good for Growth," The Economic Journal 108 (1998): 1513-1521.

<sup>3</sup> Ibid.

<sup>4</sup> M. Kreinin, Selected Trade Problems of Developing Countries, 416-421.

<sup>5</sup> Huw Dixon, "Trade Liberalisation and Growth: An Introduction," The Economic Journal, 108 (1998): 1511.

<sup>6</sup> M. Kreinin, "Protection of Domestic Industries: The Tariff" in International Economics: A Policy Approach, 6<sup>th</sup> Ed. (San Diego: Harcourt Brace Jovanovich Publishers, 1991), 334-345.

<sup>7</sup> K. Fatemi, "International Trade in the 21<sup>st</sup> Century: Problems & Prospects" in International Trade in the 21<sup>st</sup> Century (New York: Elsevier Science Ltd, 1997), 3-11.

<sup>8</sup> Ibid.

<sup>9</sup> Department of Foreign Affairs and International Trade, NAFTA: The World's Most Productive Trading Alliance [database online] (Ontario, Canadian Embassy, March 1999 [cited 5 Jan. 2000]); Available @ <http://www.cdnemb-washdc.org/trade/nafta.html>.

<sup>10</sup> Caribbean Connection.com, "Economy in Cuba", [database online] (cited 30 January, 2000); available from World Wide Web @ <http://caribbean-connection.com/cuba/economy.html>

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<sup>11</sup> A. Kappor and P. Swanson, "Trading Blocs: Bane or Blessing?" Multinational Business Review. (1996).

<sup>12</sup> Tom Bagsarian, "NAFTA at 5: A Boon for Customers," Iron Age New Steel, 15 (1999): 18-22.

<sup>13</sup> M. Kreinin, "Protection of Domestic Industries: The Tariff," 334-345.

<sup>14</sup> J.R. Markusen, "New Research Shows New Benefits" in The Free Trade Papers, ed. D. Cameron (Toronto: James Lorimer & Company Publishers, 1986), 83-91.

<sup>15</sup> "A Look at Free Trade's Limitations," The Nassau Guardian, 19 November, 1996.

<sup>16</sup> "The Real Losers", The Economist, 18 December 1999.

<sup>17</sup> A. Kappor and P. Swanson, (1996).

<sup>18</sup> Ibid.

<sup>19</sup> Gary Hufbauer and Barbara Kotschwar, "The Future Course of Trade Liberalisation", Institute for International Economics (1998).

<sup>20</sup> Department of Foreign Affairs and International Trade, NAFTA: The World's Most Productive Trading Alliance.

**Chapter 4 – The Free Trade Area of the Americas**

#### 4.1 Overview of the Free Trade Areas of the Americas Agreement (FTAA)

As we begin this new century, an important concern of government leaders in the Western Hemisphere is how to ensure that the countries of the region are prepared to meet the challenges of the millennium. This entails guaranteeing that they are capable of sustainable development over the century, facilitating improved welfare for all constituents in the region. This was one of the main concerns of such leaders going into the Miami Summit of Americas, which took place in December of 1994<sup>1</sup>. This Summit was a meeting ground for all the democratic heads of government of all the countries in the hemisphere to discuss the future of the region. Out of this Summit, one of the most noteworthy ideas that emerged was a concept of a free trade zone in the hemisphere, which was to be dubbed the Free Trade Areas of the Americas. Despite its title this agreement was designed to be more than a trade agreement – its scope was much broader. It addresses issues such as strengthening the ties of democracy, eradicating poverty and discrimination, and ensuring sustainable development within the hemisphere, while at the same time protecting human rights. Due to its wide scope, it seems that the agreement is “timely” as it offers a solution to various problems within the region. For example, in response to the economic problems in some Central American countries (ex. Mexican peso crisis) that require long-term solutions, the FTAA offers hope, as it emphasise such factors as building democracy or the promotion of sustainable development (Schott, 1997).

The primary aim of the FTAA agreement is to create a free trade zone, which would stretch from virtually the North Pole in Alaska to the south in Argentina, where

trade barriers would be lowered and economic co-operation increased. A listing of the potential member countries of the FTAA agreement is presented in Appendix 7. As seen from the listing the agreement is intended to include all of the countries of the Western Hemisphere, with the exception of Cuba, who was also not represented at the Summit of the Americas. Stemming from this integration it is hoped that there is an improvement in the general standards of living for the citizens in the hemisphere.

What brought about thoughts for such a movement towards trade liberalisation? In essence it has been prompted by the formation of several sub-regional agreements in the hemisphere such as NAFTA, which was discussed in the previous chapter, as well others such as Mercosur or the G-3 FTA. See Appendix 8 for a complete listing of all the trade agreements within the region. Mercosur is a customs union between Brazil, Argentina, Paraguay and Uruguay initiated in 1995 which is known for its efforts in reducing external trade barriers, liberalising investment and opening up complex industry sectors of the member countries. The G-3 FTA is also a Latin American agreement between Mexico, Colombia and Venezuela, and is seen more as a stepping stone to larger agreements in the hemisphere such as NAFTA.<sup>2</sup> From this brief discussion of a few of the regional trade agreements in the Western Hemisphere one could see that there is movement on behalf of many of the countries in the southern part of the hemisphere towards more market-oriented economies. Countries, particularly in Latin America are beginning to open their economies and are leaving behind the concepts of heavy government intervention and protection. This greater openness has in turn facilitated a rebirth of economic prosperity and new trade partnerships in the region. In fact, it is this trend towards sub-regional co-operation that is reflective of the broader process of

hemispheric economic and political co-operation – which has culminated in the proposed FTAA agreement.

In conceptualising the proposed agreement, the leaders of the region established the deadline for conclusion of negotiations for its completion as the year 2005, with implementation to follow in subsequent years. They also outlined that they wish to see conclusive progress towards the agreement by the year 2000. If such an agreement is successful, in terms of implementation and accomplishing its objectives, it will definitely be the most ambitious attempt at trade liberalisation to date, on either side of the world. It would even make the progressive North American Free Trade Agreement (NAFTA), which was implemented in 1994, look trivial. This is because it will include eleven times the number of countries and will encompass approximately 755 million people with a combined GDP of over \$10 trillion<sup>3</sup>.

#### **4.2 Objective and Structure of the FTAA**

The major objective or purpose of the proposed FTAA agreement is that of improving the overall welfare of the Western Hemisphere and the promotion of prosperity in the region through the integration of member economies. Its purpose is to join the thirty-four member countries together in a way that removes all restrictions on the free flow of capital, goods and services. Through this unification of economies, the agreement indirectly intends to lead to the advancement of its members in areas such as society, health care, and education. A glance at the objectives of this agreement would force anyone to conclude that it is quite comprehensive, especially when compared with

previous trade agreements and attempts at liberalisation within the region. The major objectives of the agreement as outlined in its Declaration of Principles are as follows<sup>4</sup>:

- ◆ To preserve and strengthen the community of democracies of the Americas;
- ◆ To promote prosperity through economic integration and free trade;
- ◆ To eradicate poverty and discrimination in the hemisphere; and
- ◆ To guarantee sustainable development and conserve the natural environment for future generations.

Why does the FTAA have such comprehensive objectives? The major reason seem to be an attempt on behalf of the governments to put this side of the world on a comparable level as that of the Eastern Hemisphere in relation to international trade and economic integration. In addition, they seem to desire an overall increase in the level of development and co-operation within the region itself.

What is the proposed structure of the Free Trade Areas of the Americas agreement? The agreement will build on what is already present – that is it will take its foundation and structure from present trade initiatives in the hemisphere, as shown in Appendix 8. Apart from building on such bi-lateral or sub-regional agreements however the FTAA will also be based on hemispheric wide negotiations. It has been agreed that all member countries will ultimately assume all of the obligations of the FTAA. This therefore implies that the agreement will go well beyond present trade agreements and initiatives in the region.<sup>5</sup>

The primary foundation on which the agreement will build is that of the World Trade Organisation (WTO), an organisation to which all countries in the region, except the Bahamas, is a member<sup>6</sup>. The FTAA will be designed to be consistent with the WTO, but, similar to NAFTA, it will cover many other areas and thus build well beyond the WTO and be future-oriented. However, it cannot be stressed enough that it is the view of the designers of this agreement to foster the unification of present trade agreements in the area without damaging any present alliances. At the same time, it could also be pointed out that while the FTAA might not directly damaged these existing relationships, it will certainly overshadow and supersede them. This is due to the scope of the agreement and the political commitment that it requires of member countries. Besides, it seems as if all the areas covered in present sub-regional agreements seems to be touched on in some form in the FTAA agreement.

In terms of the structure of the present negotiation process, it seems to be one off a flexible nature. It ensures wide representation from all 34 of the democracies in the region – who have the option of negotiating on an individual basis or as trading blocs. The agreement has been organised to allow for these member countries to meet in a trade ministerial meeting every 18 months, with both the site of the negotiations and also the chairmanship of the process being established on a rotating basis. Apart from this, however, it could be seen that the negotiations for the FTAA are mainly being accomplished through the efforts of nine negotiating groups, all having different functioning and responsibilities as highlighted in Appendix 9. This appendix outlines in more detail the exact objective of each of the negotiating groups. These groups are charged with collecting and compiling data on the present trading activities within the



region. Each is then responsible for examining such trade data with respect to their assigned focus area – which ranges from investment, market access, dispute settlement, or competition policy. The chairmanship of these groups is also established on a rotating basis – being changed every 18 months.

In particular, one unique feature of the negotiation process, which indicates the progressive nature of the agreement itself, is that it seems to allow for the participation of the average ordinary citizen from the outset. Such participation is fostered from the fact that these citizens have the opportunity to express their opinions and ideas to a special body established by organisers – this is the Committee of Government Representatives for the Participation of Civil Society (CGR)<sup>7</sup>. Through this committee various sectors of the community – whether it be business people, environmentalists, academic groupings or the average layperson off the street – can have a voice in the negotiation process. This demonstrates the commitment of the political leaders in the region, to ensuring that the FTAA agreement is characterised by lucidity and openness.

In discussing the structure of the negotiation process, it is also interesting to note the organisations that have served to support the FTAA development process to date. One such grouping of organisations, that is particularly noteworthy, has been the Tripartite Committee. This committee is composed of the Organisation of American States (OAS), the Inter-American Development Bank (IDB), and the United Nations Economic Commission for Latin American and the Caribbean (ECLAC)<sup>8</sup>. This collection of organisations serves to provide technical and analytical support to the negotiation process, and has developed extensive databases and research on a variety of trade policy issues in the hemisphere. Due to the important role of these organisations in

the process to date, it seems reasonable to assume that they, particularly the OAS, will continue to play a strong role in the FTAA when, and if, it is successfully implemented.

### 4.3 Progress of the FTAA

In analysing the progress of the FTAA initiative to date, it could be seen that despite the fact that the idea was initiated in latter part of 1994, it was not until April of 1998 that it was officially launched into its beginning negotiation phase. This occurred at the second Summit of the Americas in Santiago, Chile. Regardless of this slow start to negotiation, member countries of the agreement have been able to stage five successful and productive trade ministerial meetings to date. The most recent one occurring in Toronto Canada, at the ending part of last year. Overall, there seems to be mixed views on the progress on the agreement to date. Some parties argued that in face of the obstacles that the agreement faces, it has made considerable progress over the last five years. While on the other hand, others argue that visible progress towards the FTAA goal of year 2005 has been slow and even seems to be losing political support and commitment. The actual results of the process over the last few years could really be said to lie in between the two extremes, in that there has been some substantial accomplishments to date. Nevertheless, the process still has a long way to go before accomplishing its objective for completed negotiations by the turn of the century. One of the more obvious accomplishments of the FTAA's negotiating process to date includes the fact that it has facilitated the transfer of knowledge in the hemisphere. Thus all the

countries in the region – small, large, of varied language and backgrounds – have been able to learn more about each other's economic, social and political structures.

#### 4.4 Problems and Challenges of the FTAA

Despite the progress of the FTAA negotiations, it is still faced with numerous problems and challenges. One of the major challenges threatening the future of the agreement stems from the opposition to the hemispheric trade initiative. Numerous factions in the western society seem to oppose the agreement for one reason or the other, as was discussed in the previous chapter. Reasons range from environmental concerns, economic collapse, or even concern over ruination of present trade agreements. Such opposition is clearly exposed from the following viewpoint expressed by a dissident group called The Global Exchange:

“...their plan promises to benefit multinational corporations, while devastating national economies, sending people into deeper poverty, and destroying the natural environment.”<sup>9</sup>

Another problem or challenge to the process stems from its structure – that is its goal may be “too” ambitious in that it involves bringing together thirty-four countries with differences in terms of size, levels of development, and wealth. For example, the GNP of the United States is approximately four times that of the entire region<sup>10</sup>. This inherent imbalance of the agreement has many associated problems, as it results in a

difference in the needs, priorities and capabilities amongst the potential member countries. For example, the concerns of Jamaica in terms of economic development and trade expansion, will certainly differ from that of Brazil, who would probably be more interested in financial recovery and securing agreement with its major trading partners like the United States. How will such differences in objectives and concerns be resolved? The answer seems to lie in the negotiating process of the agreement. However, even this is subject to its flaws.

One such flaw that has become evident in recent times is the distribution of negotiating power and authority in the agreement process. Will a small country like the Dominican Republic have the same voice like its larger counterpart of Canada? This seems unlikely. This presents the opportunity for larger, more powerful countries like the United States or Mexico to dominate the agreement – which is the “worst nightmare” of the smaller, less powerful countries. These countries fear such a situation as it creates a trading environment whereby they usually do not have much of a voice and whereby cooperation and the betterment of all are not fostered. How will such situations be rectified? The answer is still “up in the air”. Consequently, for now the negotiation process seems to be one of informal consensus – with no formally established decision making rules. The impact of this present state of negotiations has been to delay the overall process, as member countries usually find it difficult to resolve complex and controversial issues.

Another major obstacle that hampers the future progress of the agreement involves getting the commitment of all the large players within the region – that is political incentive must be obtained for the agreement. As without such an incentive, it

will be virtually impossible to achieve the level of integration within the Western Hemisphere that the FTAA agreement was originally designed to accomplish. One particular country that could significantly influence the outcome of the agreement is that of the United States. This country's participation in preparatory meetings to negotiations of the agreement has been somewhat constrained due to the inability of the President of the United States to win congressional approval for "fast-track" legislation. Fast-track negotiating authority is a privilege granted to the Executive Branch by Congress, it allows U.S. trade negotiators the credibility they needed to close deals with their foreign counterparts. Without such fast track authority the involvement of the United States, one of the countries with potentially the most to contribute to the agreement, would be nothing more than mere appearance. Despite the US government's assurance to the other member countries that such approval will be obtained, it might come a little too late, if at all. The result of this on the movement for a FTAA would be that of delay beyond the year 2005, if not complete abolition of the idea, as indicated from the following statement:

"...actual US participation in FTAA negotiations depends on the restoration of fast track authority...if fast track fails, or is limited to talks with specific countries, the FTAA negotiators will quickly collapse." (Schott, 1997)

#### 4.5 The Future

Will it be successful? It all depends. The success of the agreement depends on many factors surrounding it. Such as the commitment of its member countries, the zeal of the organising parties in overcoming the challenges, and also in learning from the past experience of previous free trade agreements in the region. However one thing that can be concluded - if the agreement is successfully negotiated and implemented it will be the most ambitious attempt towards regional trade liberalisation ever.

It could be said that the proposed free trade agreement has been met with open arms by some and with cold shoulders by others. This lead one to ask, actually which countries in the hemisphere are pushing for such a comprehensive free trade agreement? The answer to this question seems to be the smaller, less developed countries of the region who stand to gain from the larger countries opening up their borders, and from gaining tariff-free access to their products and services. These small countries are presently excluded from all the major free trade agreements currently established in the hemisphere, such as NAFTA. Therefore, it appears that the countries most interested and committed to the FTAA agreement are those with the least economic and political influence. What about the large countries – do they want such an agreement? It definitely seems that they do, due to the various commitments made by their governments. However, major players such as the US, Brazil and Mexico all seem to taking a reluctant, undecided, or uncommitted approach to the agreement – which could add to the challenge of building political incentive for it.

In concluding, it is interesting to contemplate what role the large number of small countries in the Hemisphere will play in the Free Trade Areas of the Americas agreement and how this movement towards trade liberalisation will impact such economies. As stated above, it seems to be such small countries that are pushing for the agreement, but exactly what impacts will the FTAA have on these economies – this is still unknown. However, one could predict to some extent based on the effects of past trade agreements. The developers of the FTAA stated that the differences in terms of development of the many economies within the Hemisphere would be taken into account in the negotiation process. This is in order to ensure that the smaller countries will benefit to the same degree as everyone else from the resulting trade liberalisation in the region. However, is this promise being fulfilled, or is it even possible to fulfil it? What are the other potential effects, such as social or political, that free trade could create in a country besides its economic consequences. In addition, will such an agreement really lead to an opening up and integration of such small economies as intended or rather lead to “ruination” of such economies? All these questions will be explored in the following chapter, specifically in relation to one of the smaller, but yet more prosperous economies in the region – that of the Bahamas.

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### Notes

<sup>1</sup> Organisation of American States – Trade Unit, FTAA 2005: An Agenda for Progress [Online] (OAS) [cited 25 November 1999]; Available from World Wide Web @ <http://www.sice.oas.org/FTAA/cartage/sumcon/papers/aaccla1e.stm>

<sup>2</sup> Gary Hufbauer and Barbara Kotschwar, “The Future Course of Trade Liberalisation,” [online] (Institute for International Economics, October 1998 [cited 23 January 2000]); Available from World Wide Web @ <http://www.iie.com/TESTMONY/gch7.htm>

<sup>3</sup> Association of American Chambers of Commerce in Latin America, FTAA Background [online – cited 21 November 1999]; Available from World Wide Web @ <http://www.aaccla.org/issues/ftaa/background.htm>

<sup>4</sup> Free Trade Area of the Americas Homepage, “Summit of the Americas Declaration of Principles”, [online] [cited 12 February 2000]; available from World Wide Web @ [http://www.ftaa-alca.org/ministerials/miami\\_e.asp](http://www.ftaa-alca.org/ministerials/miami_e.asp)

<sup>5</sup> Richard Fisher, Ambassador, The FTAA: A Commitment to Fair and Open Trade [database online] (US Embassy, 11 March 1998 [cited 20 November 1999]); available from World Wide Web @ <http://www.usembassy.cl/fisher.htm>

<sup>6</sup> Ibid., 3

<sup>7</sup> National Wildlife Federation, Free Trade Area of the Americas: Toward a Hemispheric Free Trade Agreement. [database online] (NWF, [cited 20 November 1999]); available from the World Wide Web: [http://www.nwf.org/international/trade/fs\\_ftaa.html#introduction](http://www.nwf.org/international/trade/fs_ftaa.html#introduction)

<sup>8</sup> FTAA Secretariat-Tripartite Committee, Free Trade Areas of the Americas [online] (Author [cited 21 November 1999]); Available from World Wide Web @ [http://www.ftaa-alca.org/Alca\\_e.asp](http://www.ftaa-alca.org/Alca_e.asp)



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<sup>9</sup>Action for Community & Ecology in the Rainforests of Central America (ACERCA), Stop NAFTA Southern Expansion – FTAA [online] (Author [cited 21 November 1999]); Available from World Wide Web @ <http://www.globalexchange.org/economy/rulemakers/stopftaa.html>

<sup>10</sup>Peter Smith, “Whither Hemisphere Integration?” in Business Economic [online journal] (Business Economic, July 1999 [cited 25 November 1999]; available from World Wide Web @ ABI Inform - Proquest.

**Chapter 5 – Potential Effects of FTAA on the Bahamas**

## 5.1 – An Introduction

The discussion of liberalisation and regional trading agreements in previous chapters has shown that regional attempts at integration, such as the Free Trade Areas of the Americas (FTAA), could have multiple, sometimes contradicting, and often, unpredictable effects on a country. As noted earlier, it is not the intention or purpose of this paper to say whether the Bahamian government should or should not join the FTAA. But rather just to highlight some of the potential consequences that the agreement could have on such a small, developing country. As an escalating number of countries start to embrace the principle of, and then adjust to the reality of increasing globalisation, they have been affected in nearly all arenas – socially, politically, and mostly economically. This globalisation and the increased focus on trade liberalisation that usually accompanies it have created a lot of uncertainty among the players within the global trading scene. Consequently, the issue of international trade has become more pressing, especially for small developing countries. In the following paragraphs, some potential effects of the FTAA on the Bahamas will be explored – focusing on the likely economic, political and social impacts of the agreement on this fast growing country. In developing this chapter most of the framework presented in Chapter 3, which outlined the pros and cons to liberalisation and the past lessons that could be learnt from it, will be used as a foundation for analysis.

## 5.2 Economic Impacts of the FTAA on the Bahamas

The proposed Free Trade Areas of Americas agreement (FTAA) is likely to have many profound and extensive impacts on the Bahamian economy. The present state of

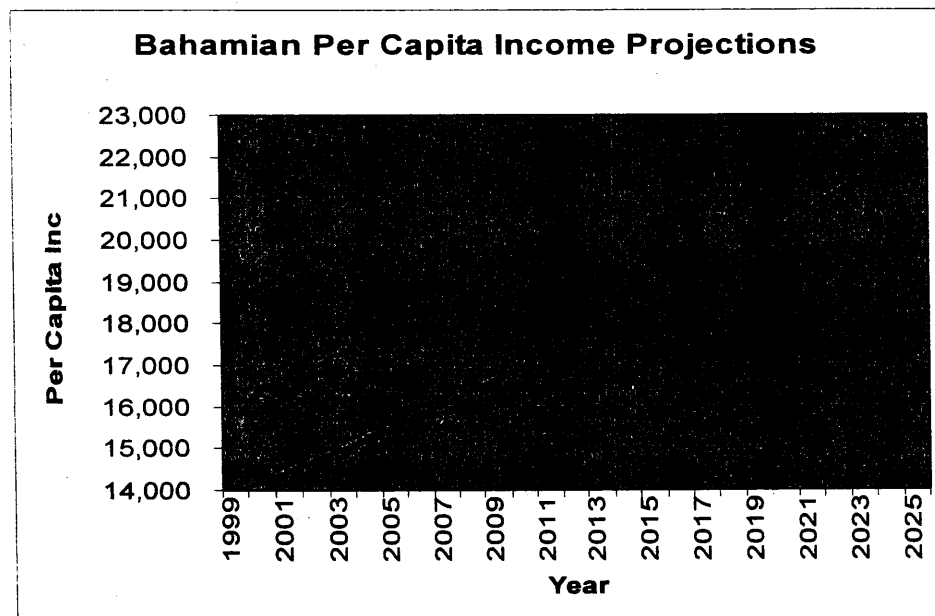
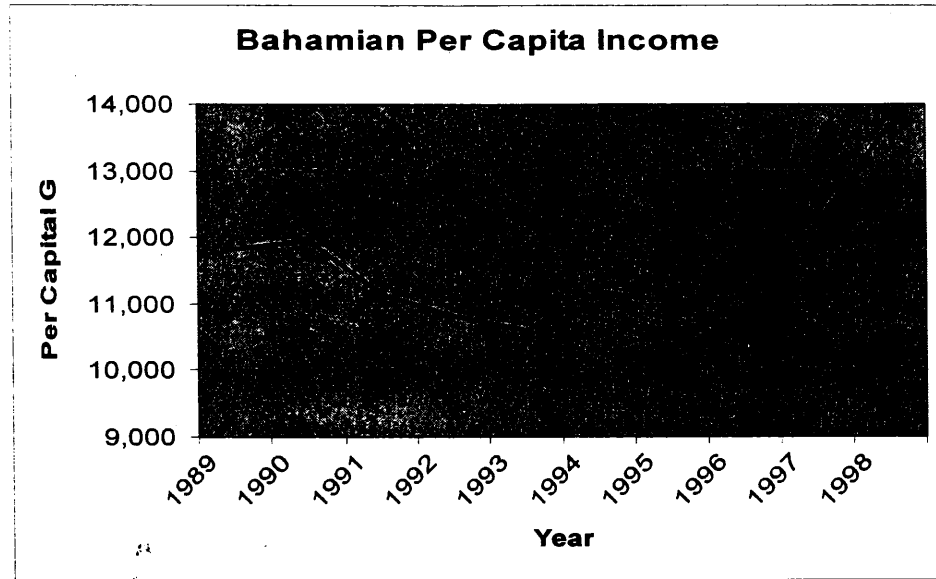
the country's economy was described in Chapter 2, which presented the major statistics of the country, its major industries and its trading patterns and partners. Obviously, it is impossible to say with exact certainty what the economic structure of the country would look like if freer trade policies were implemented. However, it is possible because of past experience and due to a basic understanding of trade theory, to say what the likely effects of free trade on the economy of the country will be. The most obvious and highly researched of such effects is that of growth, however other macroeconomic effects of liberalisation could include such issues as foreign competition or changing labour markets.

### **5.2.1 - Trade Liberalisation and Economic Growth**

History predicts, as was demonstrated in Chapter 4, that trade liberalisation usually have more intense growth benefits for smaller developing countries than it has for larger developed ones (Sachs and Warner, 1995). It is usually claimed that the economic growth experience from such liberalisation is usually seen to a larger degree in the smaller economies to an agreement.<sup>1</sup> Why is this? The reasoning is that with trade liberalisation the borders of developing countries are opened up for the first time, thus they usually experienced an improvement in overall welfare due to increased investment, productivity and economies of scale that occurs. However, developed countries are usually already privy to such factors, and thus are not as greatly affected by liberalisation attempts. If this hypothesis were indeed the case, it would be expected that the FTAA would lead to relatively high growth within the various sectors of the Bahamian economy, as it would be one of the smaller countries to the agreement. But is this

association between trade liberalisation and economic growth valid for the country? Extensive empirical evidence has demonstrated that these two factors are indeed positively correlated over the long run.<sup>2</sup> Since it seems reasonable to assume that growth following trade liberalisation is almost a certainty, it is interesting to now highlight exactly what the nature of such growth will be, and how it will be reflected in the Bahamian economy.

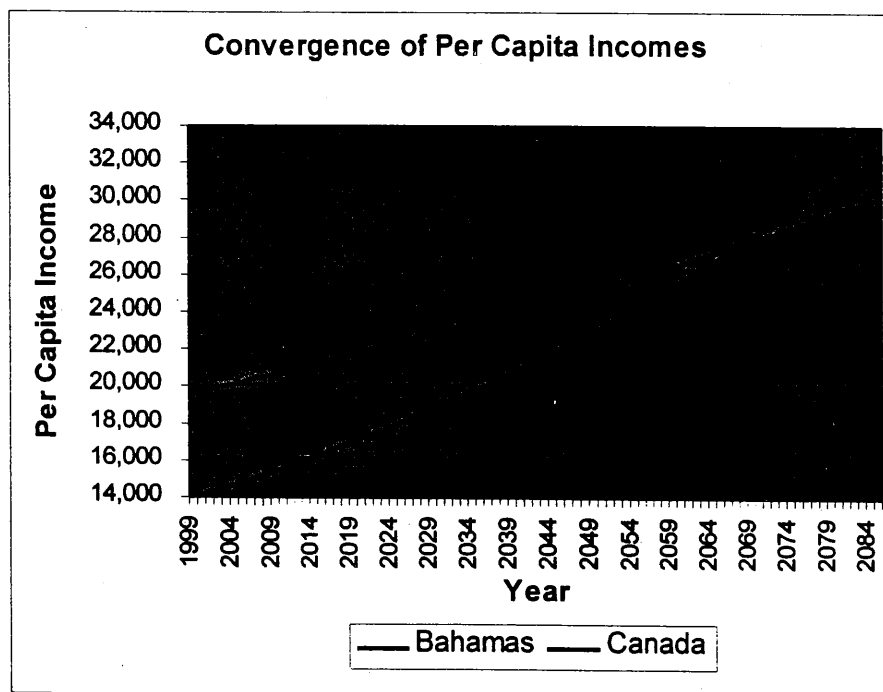
The most commonly used indicator of economic growth from trade liberalisation is the Gross Domestic Product (GDP).<sup>3</sup> As indicated previously, the GDP of the Bahamas has been steadily growing with slight fluctuations. An average growth rate of the country's GDP per capita could be calculated as done in Appendix 10, and could be used to predict what the economic indicator of the country would be over the long run without any attempt at liberalisation and all other things assuming to be equal. Using the average growth rate, as calculated in the appendix, of 1.82%, and assuming that it remains fairly constant in the future, the likely GDP of the country within coming years could be extrapolated. This is illustrated from the graphs below. Figure 2 shows that the future GDP of the Bahamas without any attempts at trade liberalisation or any other major economic change would be in the lower twenty thousands within the next 25 years. It must be pointed out that this is only a projection of what the average GDP of the Bahamas over the last 10 years into the future – it may not necessarily be predictable of reality.



**Figure 2**

An alternative approach that could be taken in demonstrating what the potential long-term effects of the FTAA's integration attempts on the Bahamian GDP could also be speculated on, using the results of studies by such individuals as Barro (1991, 1994),

Sala-I-Martin (1991), and Ben David (1995).<sup>4</sup> These studies suggest that freer trade reduces the gap in income between developed and undeveloped countries at a rate of about one half-percentage point each year than would otherwise occur. This means that the less-developed regions grew at a rate of one-half percentage points faster than the richer ones over a long period. This convergence predicted by these studies is shown in Figure 3, which compares the Canadian and Bahamian per capita income over a long-term period under an environment of open trade. It is important to indicate that this attempt at predicting the future per capita income of these two countries is only speculative.



**Figure 3**

As seen from the figure, using the results of these studies, it could be anticipated that within 25 years the gap between Bahamian and Canadian per capita income would be substantially reduce, with them being at equal level within 70 years. This implies that the

country would have move from the status of being a developing country to one of being developed. While this is a big leap, it was just done to give an idea of the type of growth that economic integration and trade liberalisation could bring to a developing small country such as the Bahamas. From this type of analysis, it could be seen that the Bahamas over the long run would be better off with liberalisation in comparison with the average rate of growth in the country's GDP possible in its absence. The above illustration supports the fact that it is a possibility that there exists a positive relationship between liberalisation and economic growth.

It has been demonstrated that the major potential effect of liberalisation on the Bahamas is that of increased economic growth, usually through a higher GDP. But what are the avenues through which such growth is achieved after liberalisation? What sectors of the economy will be most affected and will be privy to such growth? Are there any potential negative economic effects that accompany the growth from liberalisation? All of these questions will be discuss in the following sections in an attempt to uncover the exact affects that free trade will have on the Bahamian economy.

## **5.2.2 Channels of Economic Growth**

### **Trading Activity of the Bahamas**

One of the fundamental and more obvious avenues for increase growth in the Bahamian economy is through the increase trade that liberalisation will cause in the country. This change in the trading of the country will be reflected through changes in its trade partners, the volume of trade and in the country's trade balance.

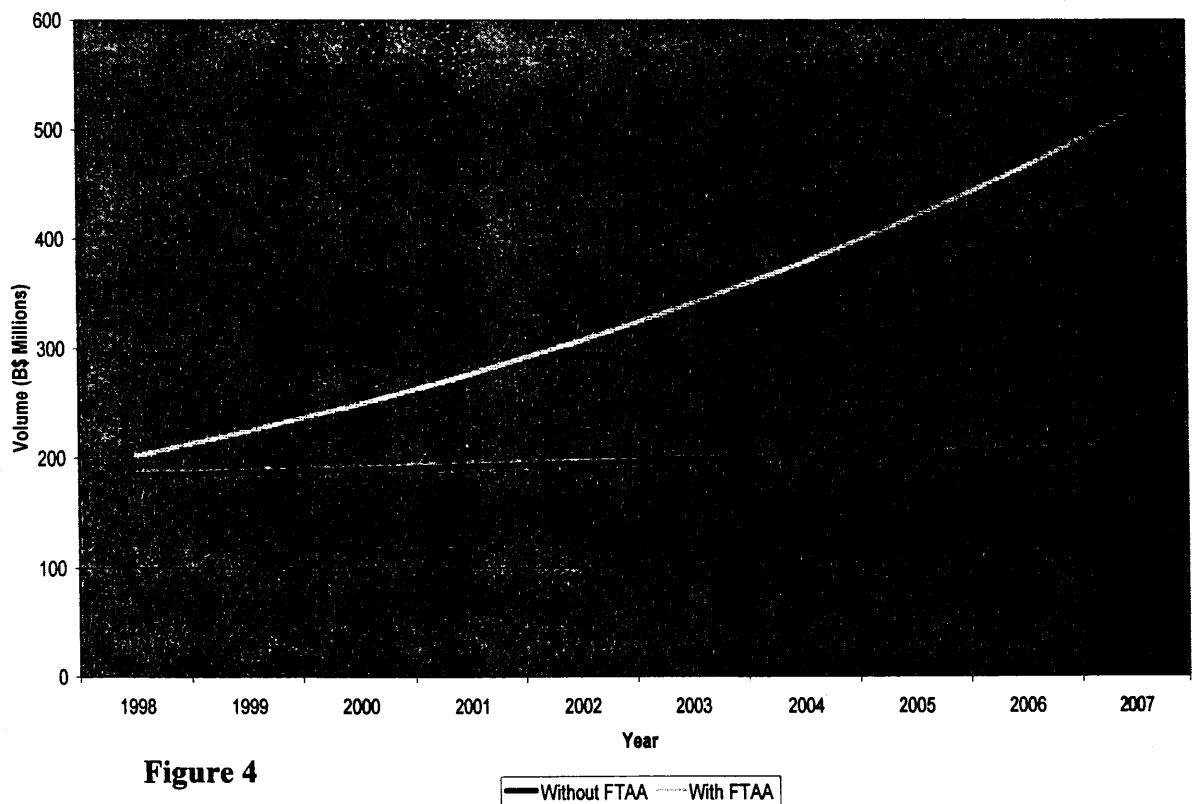


As highlighted in Chapter 3, the Bahamas main trading partners presently are the United States and the European Union (EU). However, with the FTAA and free trade this could change, as a whole new market will now be opened up to the country – that of the South American or Latin American market. Due to the close distance (thus reduced transportation cost) and the availability of the majority of the country's imports (as shown in Appendix 6) within these new markets, there is the potential that they may surpass the EU in becoming the country's second largest trading partner. This was exemplified with Mexico and Japan following NAFTA, with the former country surpassing the latter in terms of becoming the US second largest trading partner.<sup>5</sup> In reference to the Latin American market, in particular, it could be seen that the Bahamian economy is poised to become a partner with this region, especially in the financial services sector. The Prime Minister of the Bahamas recently stated that Latin America has always been a vital market for this sector. He also indicated that after the Miami Summit of the Americas in 1994, and in anticipation of the FTAA, his government has taken numerous actions aimed at developing a mutually beneficial relationship with various Latin American countries. Apart from a range of legislation pass by the government, such action includes the numerous joint public/private sector trade and investment missions made to this area, with the intention of establishing future ties with the countries in the region.<sup>6</sup> In sum, it could be seen that increase trade stemming from the FTAA could involve a shift in the trading partners of the Bahamas. This could in turn lead to various avenues of growth in industries such as financial services, tourism, agriculture or even light industrial sectors such as alcohol production.

Apart from a change in trading partners, the volume of trade itself would also reflect the changing nature of the country's trading activity. It is highly likely that trade volume will increase, both in terms of imports and exports, with the possibility of the increase in exports being higher than that in imports. One of the major reasons for such an increase is that the growing manufacturing export sectors, such as alcohol, crawfish or crude salt (See Appendix 3), within the country will now have a larger market for their products within the region. For example, the recent niche markets that have been established in southern Florida for Bahamian alcoholic beverages are illustrative of the possibilities that could be exploited with freer trade and integration. Several analytical tools could be used to obtain approximations of the potential growth in trade volume. One of the more commonly used tools, that was presented by Hufbauer and Schott (HS) in their book entitled "North American Free Trade: Issues and Recommendation", is that of an econometric model. This model is primarily based on historical observations, and it attempts to calculate the direct and indirect effects of eliminating barriers to trade (Hufbauer and Schott, 1992). By looking at the experience from past liberalisation episodes, this historical approach highlights the dynamic processes that are set in motion by trade reform policies. Despite some obvious limitations of the model, such as the assumption that situations could be generalised or the lack of a mathematical sophistication, it is a quite useful tool. In the past, it has been used with some degree of success in predicting the effects of trade liberalisation on economies. One area in particular where this historical model could be useful is in projecting the rate of growth in the exports and imports of a country following trade liberalisation. For example, HS used this type of analysis to predict what impacts NAFTA would have on the trading patterns

of Mexico, concluding that the agreement would have most likely cause an increase in the country's trading volumes. In reference to the Bahamas, using this model, it could be concluded that free trade along with the other policy and economic reforms taking place in the country will result in increase trading volume. It is especially interesting to analyse the potential changes in the export sector of the country – a sector that have been subjected to severe restrictions to date due to the import-substitution trade policies of the country. Appendix 11 shows the projected exports of the country over the next ten years, with and without implementation of the FTAA. It could be seen that the exports of this small developing country is likely to increase substantially with the removal of barriers to trade within the region, than with their presence remaining, as illustrated in Figure 4.

Projected Growth in Bahamian Exports



### **Investment and Productivity**

Investment, especially foreign investment, is another avenue through which trade liberalisation could result in economic growth in the Bahamas with the implementation of free trade and the FTAA. Trade liberalisation could lead to increase investment in several important ways. Firstly, an open trade regime usually results in an increase in market size, which fosters investment in industries that have more growth potential than would have been possible without liberalisation. In addition, as domestic producers now have increased access to capital goods than they had before, investment within the country is encouraged. Secondly, and more importantly, liberalisation could result in higher foreign direct investment within the country. This is primarily due to the clear and transparent guidelines about the treatment of foreign investment that usually accompanies free trade. In reference to the Bahamas, it could be proposed that with the break down of trade barriers, many large multinational firms may see the country as a good place to invest and base their operations. Sectors of the country's economies that would most likely be privy to such FDI include the financial services and manufacturing sectors. In the past, contributing factors to foreign investment in financial services in country have included such things as bank secrecy, political stability and qualified professional pool available. However, it is interesting to note that one of these long-standing attracting features of investment to the country, namely bank secrecy, may be threatened by the introduction of a regional free trade agreement, such as the FTAA. This is because free trade could pressure the Bahamas to relax its bank secrecy policies. Therefore, it could be seen that while the agreement could lead to increased direct foreign investment in the financial services sector, it could also at the same time threaten the secured environment

that the Bahamas financial community has come to be known worldwide for. This illustrates that free trade, like most things have positive and negative aspects, and that it could potentially have good and bad effects on the Bahamian economy.

Direct foreign investment, which results from trade liberalisation, could also benefit the manufacturing sector, as it would now have access to a larger capital pool and to new technologies. This could lead to the sector's expansion and increase economies of scale within the country. The net overall effect of all this increased investment, both domestic and foreign, within the Bahamian economy because of trade liberalisation would be that of higher economic growth.

Investment within a country is usually a source of increased productivity – which is also another avenue whereby trade liberalisation could potentially lead to increase growth within the Bahamian economy. As liberalisation usually leads to a more efficient allocation of resources within the country the service, manufacturing, and other industries within the country usually become more proficient and productive. This in turn fosters a growing and competitive economy.

### **5.2.3 Other Macro-Economic Effects of Trade Liberalisation**

#### **Foreign Competition**

So far it has been demonstrated that the Bahamas movement towards freer trade and the FTAA will result in economic growth in the country through various means – such as an increase in trading activity, investment or productivity. However,

liberalisation could also have various other macro-economic effects on the country – some of which may not be so positive.

One evident effect is the increased foreign competition that is associated with competing freely in a larger regional trade bloc. Many of the domestic industries of the country have never really been faced by international competition, and thus lack the resources or the knowledge of how to compete internationally. Many of these operations have developed in a fairly small and protected environment with little competition, due to the import-substitution approach to trade that the Bahamas has established. Examples include the fishing, public transportation or the retail and wholesale sectors of the country. However under the FTAA all protective measures will eventually have to be removed, and such industries will face “real” competition for the first time. While the affects of such competition are uncertain, it could be predicted with a fair degree of certainty. The result of such international competitive forces on the country would either be to force local operators to run their business more efficiently or to force them out of business. This is because local businesses may be unable to compete with the technology and resources of larger foreign firms. There is general agreement within the country that the two sectors to feel the brunt of such competition would be that of manufacturing and retailing. From the manufacturers point of view there is the fear that their products will be replaced by an influx of global imports. Similarly, retailers fear that U.S. retail giants, such as Wal-Mart or Kmart, will enter the Bahamian market and demolish the local businesses. It could therefore be highlighted that from local business point of view, it is something like a “bitter sweet symphony”. Despite getting the gains of expansion and growth that access to a larger market brings, coupled with greater direct foreign

investment, they also have to face the threat of increased foreign competition. UN Secretary-General Kofi Annan sums the plight of the Bahamas in relation to such foreign competition in the following statement:

“...liberalisation and an end to special trade preferences will make it harder for some of the products of small islands to compete...”<sup>7</sup>

Indeed it is possible that the entire private sector of the Bahamian economy including wholesale and retail trade, mining and manufacturing, hotels and restaurants, and financial intermediation could be potentially affected by the proposed FTAA agreement and the increased foreign competition that it will foster. These private sectors are vital contributors to the country's GDP, which stresses the important role that the private sector interests have to and should play in the implementation of any regional integration agreement. Many leading businessmen within the country, such as Reginald Lobosky, former President of the Bahamas Chambers of Commerce, agree that it is “vitaly necessary” that the private sector of the country be involved in the process leading up to the implementation of the Free Trade Areas of Americas (FTAA)<sup>8</sup>. Although the exact role of the private sector spokesmen is still open to debate, it could be seen that they should play some consultative role in relation to the government. In this way, their concerns and interests could be made known. However, it could be argued that in order to play any meaningful role in the negotiation process leading up to the FTAA, the individuals in these sectors have to become informed of the process and the implications

of it on the country. This could pose to present a challenge to the full involvement of this sector of the economy.

### **Bahamian Labour Markets**

Another potential macroeconomic effect of trade liberalisation on the Bahamas is in terms of the adjustment costs that would be required in the country. Although such adjustment costs could have some political consequences, as will be discussed shortly, they are mostly illustrated in the economy, especially in the labour markets. Adjustment costs could be defined as the potentially negative short-run outcomes that might result from trade liberalisation (World Bank, 1999). In relation to the labour markets within a country, such costs are usually manifested through a reduction in employment or shifts in wage rates. As was demonstrated in Chapter 3, there are conflicting or opposing viewpoints on the effects that integration could have on the level of unemployment within a country, with some believing that it creates jobs while others believing the exact opposite. A study conducted by Steven Matusz and David Tarr (1999)<sup>9</sup>, which focused primarily on developing countries concluded that overall the adjustment costs of trade liberalisation are relatively small in comparison with the benefits to be derived from it. They stated that this is also true in relation to the impact that trade reform could have on employment – that is overall there is an increased in employment. In reference to the Bahamas, as shown previously, the unemployment rate has been steadily declining, and is at its lowest point ever. How will the FTAA effect this positive decline? Despite empirical evidence suggesting an increase in employment, it is hard to say exactly how each labour sector in the country will be specifically affected. However, the labour



sectors most likely to be positively affected in the country include tourism (which employs approximately half of the labour force in the country<sup>10</sup>), financial services, and manufacturing. On the other hand, those that may experience negative impacts to a certain degree include the public sector, the wholesale and retail trade or other industries such as construction. These predictions follow directly from the Heckscher-Ohlin (HO) theory, which predicts that countries will export the products that use their abundant factors intensively (Hufbauer and Kotschwar, 1998). For a developing country like the Bahamas, this would consist of the labour intensive goods such as those produced from agriculture or fishing. Therefore, with the signing of the FTAA, the Bahamas will undoubtedly expand its export sector, which would in turn influence its labour markets in one way or the other.

From all the discussion above about the potential economic effects of free trade and the proposed FTAA agreement on the Bahamian economy, one thing could be concluded. It is important for policy makers within the country to realise the rapid pace at which economic integration, and the associated trade liberalisation, is taking place and to arrange their economies to derive the most benefit from it. With the increased tendency towards globalisation and liberalisation of economies, change is unavoidable – it will come, and the countries that are prepared for it will be those that are most successful in the end.

### **5.3 Political Implications**

What does the government of the Bahamas think of the proposed FTAA? How committed are they to the process? What necessary changes have they adopted to allow

for the implementation of the agreement? Do these policy makers feel that the country will benefit more than it forfeits in this agreement? Finally, what are the consequences of not entering the agreement? These are all vital questions, the explorations of which are necessary in order to understand the potential political implications of the Free Trade of the Americas agreement on the Bahamas. In identifying the general position of the government on the FTAA, it seems that they are playing it safe. Despite being committed to the idea of economic integration and the benefits that it and free trade brings, the government realises the significant adjustments that would have to be made in the country. Thus, they have not fully committed themselves to the agreement. This position is indicated from the most recent budget communication of the government where they indicated that signing the Miami Declaration in 1994 did not mean commitment to the FTAA, but instead:

“...simply meant commitment to the process of negotiation of an FTAA which when the structure is finalised would be placed before Governments for decision on entrance...”<sup>11</sup>

The government, therefore, despite being fairly committed to this integration attempt has still left an avenue open in the event that it decides to back away from the agreement. However, in the meantime the stance of the government has been one of taking an active and constructive role in the FTAA discussions. They are going into these negotiations with the mindset that the country should gain more from its membership than it losses. The country's policy makers have guaranteed that they will negotiate an agreement based

on the interests of the Bahamas and that allows for concessions and other advantages for the country's major economic sectors. For example, the Prime Minister of the country recently stated that efforts would be undertaken to maintain the existing tariff structure within the country. However, how realistic this latter position is given the small size of the Bahamas in relation to its other trading partners is at best questionable. For example, despite the Prime Minister's statements, the country has just recently undergone a significant change in its tariff structure even before the implementation of the FTAA, as will be discussed shortly.

Over the last few years, the Bahamas has made numerous attempts towards moving to a more market-based and open economy, in an attempt to facilitate the execution of the FTAA agreement. The actions taken to date could indicate what the agreement would entail for the political structure of the country in the future. These actions are quite similar to those that were taken by the Mexican government in the prospect of NAFTA, which signifies the type of political changes that free trade usually generate within a country. Prior to NAFTA, Mexico, like the Bahamas is presently, had been dedicated to import-substitution and other protectionism. However, in preparing for the agreement, the government of Mexico undertook several important political actions, similar to those currently being commenced by the Bahamian government. For example, the Mexican leaders changed the country's constitution to make it more attractive for foreign investment, reduced other barriers such as the stringent requirements for national ownership of industry and privatised state-owned enterprises.<sup>12</sup> If one was to analyse the political actions of the Bahamian government over the last few years it could be seen that it is following a similar pattern as that outlined above. Among the changes that the

government have implemented include such things as privatising public corporations, relaxing exchange controls, enacting new laws and reducing certain tariffs.

In terms of privatisation, the government has realised that it should move away from publicly regulated enterprises that were losing money, and allow market forces to control their operations. To date it has made arrangements to privatise the local telephone company and, in the future, other industries could include electricity and water works. Government actions in relation to the passing of new laws due to prospective trade liberalisation have included its recent industrial relations act, its securities commission act<sup>22</sup> and its copyright act. Further laws that could be implemented due to the FTAA could centre on issues such as investment regulations, alternative sources of government revenue, or even protectionist subsidies for domestic industries. The final obvious, and probably most significant, measure taken by the Bahamian government to date in response to its anticipation of trade liberalisation is that of introducing a harmonised system of custom tariffs. This took place in 1996 and involved reducing the more than 120 tariff rates of the country to approximately 23<sup>13</sup>. In addition to this reduction, with the introduction of the FTAA, the country will have to further reduce its import tariffs that act as barriers to free trade. As was indicated in Chapter 3, tariff revenue accounts for over half of the country's fiscal income, and therefore any changes in it will severely impact government revenues. Despite this potential effect on fiscal revenues, it is clear that tariff reforms are necessary if the country is to obtain the static and dynamic gains associated with trade liberalisation. However, there is a way whereby the country's government could reduce the impacts of lost tariff revenue – this is to design the tariff reform package simultaneously with reforms to boost domestic taxes.

In relation to the likely changes in the tariff structure of the country because of the FTAA and the possible alternative sources of domestic taxes, several opposing views exist in the country. On the one hand, it has been voiced that it may be possible for the country to join the agreement without making any significant changes to its present tariff structure. The logic behind this argument is that import taxes as they presently exist in the country is merely a form of sales tax on imported goods that are levied at the point of importation. Therefore, under free trade, the requirement that import duties be levied in a non-discriminatory manner - meaning that similar goods from different member countries to the agreement must be taxed on the same basis - would be met by the present system of import taxation. This is because it is a form of "sales taxes" that is already established in a non-discriminatory manner. That is it does not matter whether the goods come from Japan, the US, or anywhere else in the world it is still charge the same rates straight across the board. Thus, it is claimed that the move to trade liberalisation would not entail any changes to the country's taxation system. This seems to be the prevailing viewpoint in government, as they maintain that it is not clear yet if the Bahamas would be forced to eliminate or substantially reduce border taxes in order to participate in the FTAA. The reasonableness of this viewpoint could be questioned however. If the purpose of a free trade area were to eliminate or remove all or nearly all the barriers to trade, it would be antithetical to have member countries that still have such barriers in place. In addition, a country the size of the Bahamas does not have the bargaining power needed to negotiate such exceptions.

An alternative position taken on the tax dilemma in the country is that with the unavoidable reduction in tariff rates, and thus government revenue, that will accompany

trade liberalisation, the government should consider alternative revenue-generating measures. As alluded to earlier one possibility is to increase domestic taxes within the country. In reference to this, there have been several rumoured suggestions to date, including the possible introduction of income taxes. However the most feasible one, and the one that will most likely be implemented in the country, is that of a sales tax. Despite the fear of many that income taxes will be introduced in the country, the government has taken a strong stance that it is not an alternative for the country. There are numerous reasons why this form of taxation would not prove feasible within the country. Among them is the fact that it would offset any growth in the financial services sector and other sectors. This is because one of the country's primary appeals to investors in the past has been centred on the fact that it was a tax haven. Also there is a relatively small tax base within the country and the monitoring costs of an income tax system would be too high. Such factors have prevented such a system of taxation from ever being implemented in the country. With a population of approximately 300,000, with only over a little more than half comprising the labour force, the revenue that would be raised out of an income tax system would not be near the revenue that is generated from the present tariff system. In addition, with the nature of the Bahamian economy, it is easy for certain groups of people to pay less tax than others. For example, the civil servant will be taxed to the maximum due to the government's good record keeping, however the self-employed fisherman could often pay much less. The efforts at monitoring such a system would be very costly. Due to these various drawbacks, many in the industry have proposed an alternative form of taxation in the form of a value-added tax or sales tax system or a combination of the two.<sup>14</sup> This seems to be the most likely replacement of government

revenue in the future of the Bahamas if the FTAA and free trade is implemented in the country. However, this path could also have its problems as it could lead to increased bureaucracy within the country.

Despite all the changes taken by the government to date, and the potential effects of the FTAA on the Bahamas as discussed above, one thing remains clear - the Bahamian government is approaching the FTAA with caution. As a result of being a small country, without the ability to affect the world trade price or levels, the government of the country has approach the negotiation stage of the FTAA with plenty of research and even a dash of apprehension.<sup>14</sup> They have adopted the attitude that they wish to ensure that the country gets the best deal possible out of the arrangement. For example one of the government's firm negotiating stance on entering the discussion stage of the agreement is that it must maintain enough flexibility to enable the country to continue to provide support to infant industries and local domestic producers.<sup>15</sup> Overall, it seems that the Bahamian government believes that free trade and integration is what is needed to advance the country, despite all the adjustments that they might entail. They also see the process as a learning opportunity, whereby they are forced to look critically at the country's economy and how it is designed.

In concluding on the political implications of the proposed FTAA, it could be said that in spite of all the uncertainty surrounding the potential political effects on the country, it would be worse off if it decides not to join the FTAA. This is demonstrated in a statement by Bray (1999):

“...it is an underlying unstated assumption...in much contemporary writing about trade policy that the theoretical benefits of free trade make any deviation from it for social policy reasons unacceptable...”

It does not help in anyway for the Bahamas to stand apart from this integration attempt. The country needs to be forward looking and may find other countries in the region erecting trade barriers and restrictions against it if it refuses membership, due to the discriminatory nature of regional trading blocs. Past experience as shown that such agreements favour their member countries often to the disadvantage of those who are left out (Fatemi, 1997). Take the situation of the European Union (EU) for example – there are high costs to the countries who are not a part to the agreement in terms of trading goods and also moving people. Therefore, if the Bahamas chooses to stand apart from the FTAA agreement it could face severe costs resulting from likely trade diversion – such as closed off markets in the region or higher duties on exports. As a result of this situation, it seems that if the FTAA is implemented, change is inevitable for the Bahamas.

#### **5.4 Social Implications**

One aspect of trade liberalisation that is often overlooked is that of its social implications – that is what does society think about liberalisation and how does it affect them? Granted, while this viewpoint on international trade policy may seem to be a strange spin at first, it is nevertheless becoming an important consideration. From a discussion of the potential economic and political effects of the FTAA agreement on the



Bahamas, one could see that the potential exists for many social consequences. For example, what would Bahamians think about a new sales tax system? How would they feel about the thousands of new migrants to their shores? How would local businessmen react to increased foreign competition, and labour to the change in the distribution of income that usually accompanies trade liberalisation? All these issues and more will be considered briefly in this section - which will highlight that it is not only the economic or political effects that could be significant in trade liberalisation or integration, but that the social effects on a country will also be important.

So how does the Bahamian society feel about free trade and the possibility of being integrated with their neighbours within the hemisphere? Well, the answer seems to depend on which sector of the society one belongs to, whether it be in the role of the small businessmen, organised labour, consumer, or the role of just an everyday ordinary citizen. At best the feelings towards economic integration, and the resulting liberalisation it creates, in the country could be described as *mixed*.

From the small business perspective, the usual response to free trade in the society is one of fear and distrust. This can be concluded from the various protests and demonstrations seen in this sector in relation to foreign trade in the past. Take for example a protest in the early 1990s, whereby a group of small businessmen and their staff demonstrated in the city's central area about the unfair competition that free trade brings, which they stated "could lead to the lose of jobs and a degradation of society as a whole"<sup>16</sup>. Or more recently, the "Black Wednesday" demonstration in the country, where public sector workers protested against the government's attempts at privatisation<sup>17</sup> - a fundamental step in any integration process. This sector's fervent response to free trade

will likely be the same with the proposed FTAA agreement if the country enters it. However, it could be tuned down by the fact that the government has taken measures to make sure that the concerns of the private sector, including such small businessmen, are known as it enters the negotiation stage of the FTAA. For example, it has established a framework whereby each sub-sector of the private sector within the country is represented by a committee. Such committees will meet on a regular basis with government ministers and other officials to discuss various issues in relation to the FTAA.<sup>18</sup> In addition, the government has also taken several policy stances that might alleviate the reaction of the small businessmen to the FTAA. This is exemplified in their policy that even with the prospects of free trade, retail in the country is still reserved for Bahamians, along with several other domestic industries such as fishing.<sup>19</sup> Whether the Bahamian government will have the bargaining strength in the FTAA negotiations to retain such policy measures, is however questionable.

Labour groups within the country will probably be the most vocal group in response to the FTAA. Due to some level of ignorance and to propaganda spread by others, this sector may feel that their jobs will be threatened or their wages reduced. This issue was explored already in chapter 4 and somewhat in this chapter. As discussed some industries in the country may experience growth at the expense of others – with the labour intensive industries being the winners as they now would have large markets open up to them in terms of exports. However, overall it seems that the labour segments in the country will serve to benefit from such things as new international standards, higher average wage rates, and jobs in potential foreign markets. However, policy makers have

the task of making the labour markets in the country to agree with this line of reasoning if social protest is to be avoided.

Consumer groups in the Bahamas will most likely be in support of free trade and the FTAA agreement. This is because the removal of tariffs and other trade barriers usually result in lower prices and a wider array of products in a country. Even if they face the possibility of a sales tax, due to changes in the government's revenue structure, one could speculate that it should not really generate a negative response in society. This conclusion is primarily because Bahamians are more than willing to go on shopping trips to Florida or other parts of the US and pay any sales or consumption taxes that exist. Also such a system will result in individuals of the country having a larger stake and higher level of interest in the general operation of the economy, as they would be more concerned about how their tax dollars are being spent. Therefore, in relation to the Bahamian customer, that the response to the FTAA would most likely be neutral.

From the point of view of the average Bahamian citizen, the most pressing social concern seems to centre on the possibility of losing the Bahamian culture and the things that make it "Better in the Bahamas". It is felt that the influx of foreigners that will most likely accompany free trade will probably in the long run lead to a phasing out of sorts of the unique Bahamian culture. While this may be a potential social effect of trade liberalisation on the country, it is only true to a limited extent. This is because, as was pointed out in Chapter 2, the Bahamian society and culture has already been modelled after that of other countries, for example the large number of American franchise restaurants that exist in the country. Another major "gripe" in the society usually involves disapproval over the way the country's government handles foreign affairs

issues. Some in the country feel that the public should have more of a chance to voice their opinions in relation to such matters and not to find out after the fact. They highlight that Bahamians are as much in the dark about the country's role in the establishment of the FTAA today, as they were when Prime Minister Ingraham signed the Declaration to the agreement at the Summit of the Americas in 1994.<sup>20</sup> This social view if left untended could affect the potential success of the FTAA in the country and its general acceptance in Bahamian society.

Therefore, in concluding this section, it could be said that the response that will be generated from the FTAA in the Bahamas would depend greatly on the individual and his or her position in the society. However, it seems that there would not be much social ills or disadvantages created by the agreement, and the few that are, could probably be overcome with some form of policy implementation. Nevertheless, it is still important for policy makers to keep this social perspective at the back of their minds – as if left unnoticed it may have the potential of becoming a thorn in the side of economic integration. They must make free trade an integrative process – ensuring that all factions of the society has an opportunity to voice their opinions and also be informed of all information related to the process.

### **5.5 Conclusion**

Overall, it is impossible to say what the exact impacts of free trade and the Free Trade Areas of the Americas agreement will be on the economic, political and social structures of the Bahamas. However, it seems that the country as a whole will be in a better position after trade liberalisation than it was in before. The failure of import

substitution and other protectionist efforts pursued by developing countries during the mid-twentieth century has demonstrated the importance of moving towards open-economies and integration.

Economically, liberalisation would mean increased trading, growth, investment and productivity for the country. It could mean high initial adjustment costs, but it is clear that in the long run the Bahamas will gain economically from integration and liberalisation. Politically, free trade will result in an upgrade in the legislation of the country, a reduction in bureaucracy, the promotion of democratic principles, establishment of ties with neighbouring countries, and potentially an improvement in governance creating an improved standard of living for citizens. Socially, free trade in the Bahamas may not be so clear cut. This is due primarily to the mixed perceptions and reactions it will bring about. Change is a dynamic process that frightens the average citizen. However, it is possible that over time, Bahamians could be made to realise that free trade is something that could potentially do more good than bad for the country. Trade liberalisation will have numerous impacts on the Bahamas, as was demonstrated. However, the question that still remains is will the effect of liberalisation on the economic, political and social spheres of the country result in it being more integrated with its surroundings? Or alternatively would it have the effect of ruining the present position of the country, pushing it backward in terms of development instead of forward?

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### Notes

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<sup>2</sup> The World Bank Group, Liberalisation of Trade in Goods: Links to Growth, [database online] (The World Bank, 1999 [cited 9 February 2000]); available from the World Wide Web @: [http://www1.worldbank.org/wbiep/trade/TradePolicy.html#liberalization\\_goods](http://www1.worldbank.org/wbiep/trade/TradePolicy.html#liberalization_goods)

<sup>3</sup> W.M. Cordon, "The Declining Importance of Trade-Tax Revenue in the Process of Economic Development," in Trade Policy and Economic Welfare. (Oxford: Clarendon Press, 1974), 77-80

<sup>4</sup> Hufbauer and Kotschar, 1998.

<sup>5</sup> Department of Foreign Affairs and International Trade, NAFTA: The World's Most Productive Trading Alliance, [database online] (Canadian Embassy, 1999 [cited 25 January 2000]); available from the World Wide Web @: <http://www.cdnemb-washdc.org/trade/nafta.html>

<sup>6</sup> Earl Cash, "Bahamas," International Financial Review, April 1997.

<sup>7</sup> Pacific Islands Development Program, Small Islands Have Day in the Sun at UN, [online] (UN, September 1999 [cited 19 January 2000]); available from the World Wide Web @ <http://pidp.ewc.hawaii.edu/PIReport/1999/September/09-30-01.htm>

<sup>8</sup> Gladstone Thurston, "Sales Tax Necessary", Nassau Guardian, 9 May, 1996.

<sup>9</sup> The World Bank Group, 1999.

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<sup>10</sup> Etienne Dupuch Publications, Bahamas Handbook, 2000 (Nassau: Author, 1999).

<sup>11</sup> William Allen, "The Commonwealth of the Bahamas 1999/2000 Budget Communication [online] (Ministry of Finance & Planning, May 1999 [cited 25 January 2000]); available from World Wide Web @ <http://www.fmbahamasfacts.com/budget.html>

<sup>12</sup> Majorie Bray, "Trade as an Instrument of Dominance: The Latin American Experience", Latin American Perspectives [online] (September 1999 [cited 27 January 2000]); available from World Wide Web @ ABI Inform/Proquest.

<sup>13</sup> Dawn Lomer, "Business Beyond 2000," Bahamas Handbook, 2000, 1999, 311-324.

<sup>14</sup> Lomer, 1999.

<sup>15</sup> Gladstone Thurston, "No Changes in Tax Structure for Free Trade Involvement", The Nassau Guardian, 26 May 1995.

<sup>16</sup> Gladstone Thurston, "Merchants Protest Foreign Traders", The Nassau Guardian, 9 January, 27 December 1993.

<sup>17</sup> Thurston, The Nassau Guardian.

<sup>18</sup> Allen, 1999.

<sup>19</sup> Lomer, 1999.

<sup>20</sup> Gladstone Thurston, "Free Trade Zone: Did PM Sign Away Our Sovereignty?" The Nassau Guardian, (1995).

**Chapter 6 - Conclusion**



The performance of historical evidence and economic argumentation suggests that trade liberalisation and the free trade that will be brought about with the implementation of the Free Trade Area of the Americas agreement will result in an overall improvement in a country's position. The only unresolved questions that remain relate to how different sectors in a country will be affected by such a process - as some will gain at the cost of others; and how the political, economic and social structures of the country will be changed by such a movement. The specific country of interest in this case was the Bahamas. As was stated in the introduction of the paper, it is not the purpose of this paper to say whether the Bahamas should or should not join the proposed FTAA. This is a decision that will require more detailed research and analysis. Rather, the intention was to highlight what the potential affects of free trade in general, and the FTAA in particular, could be on the country's economy, society and political policies. In addition, from this to reach a conclusion as to whether such required changes would have the effect of moving the country forward to integration or backward to isolation & stagnation.

## 6.2 Future for the FTAA

Concerning the future of regional integration and trade liberalisation, like that already encompassed in NAFTA, and that which will be contained in the FTAA, it could be said that there are several routes. There could be a gradual movement towards such integration, alternatively countries in the region could go ahead with full force in relation to it, or, in the worst case scenario, there could be a movement backward, due to various macroeconomic problems and declining commitment. Although the path forward towards such hemispheric integration is unclear, it could be said that the most likely

approach would be that of gradual integration. This is concluded based on a process of elimination. The second route is eliminated due to the fact that major players like the US or Canada do not have a feeling of urgency towards integration. This is because they really have little to gain from it as they already have established trading relationships with their major partners in the region. In relation to moving backwards, it is just too costly a move to even give consideration. Therefore, it seems that while integration and trade liberalisation will occur in the hemisphere, it may take sometime before their effects are seen. This gradual approach towards hemispheric integration is what seems to be incorporated in the FTAA, due to the period of implementation that has been assigned to the agreement. This leads one to then ask what is the likely outcome of this gradual attempt at regional integration and free trade.

The likely outcome of the FTAA all seems to depend on one factor at this point in time – that is the commitment of the member countries in bringing it to reality, this is especially true for the larger countries. Will such countries have the will power to negotiate the agreement over the long run? As was indicated, one of the major obstacles to the full commitment of the United States at this point in time is the lack of fast track authority. It could be stated that without obtaining such authority, the FTAA would not become reality. Even if the negotiators to the agreement are able to get past the problem associated with getting fast track authority, they still face several major problems that serve to work against the agreement. Problems such as the opposition to any liberalisation attempts by various factions in society, as was demonstrated from the massive protests at the recently “failed” meetings of the World Trade Organisation in Seattle; or even from carving out an agreement that benefits all the members. If such

problems could be overcome, the agreement has a vital chance of being implemented. In terms of dissent over free trade, it could be suggested that some sectors of society will never be pleased, and that it is impossible to please everyone. However, once overall welfare is improved the objectives of free trade could be seen as being accomplished, regardless of the propaganda being spread by various self-interested factions. If the desires of these factions are met and liberalisation was to move backward or to be stalled – who will suffer the most? It will be developing countries such as the Bahamas. In regards to carving out an agreement that is to the benefit to everyone, it could be said that as illustrated from fundamental free trade theory, all parties involved in trade liberalisation benefit from it as it is not a zero-sum game. It could be said that the largest beneficiaries of the process will be those who are most committed to it, in terms of reducing their barriers to trade. In the final analysis the future of the FTAA at this time it is uncertain – this is because its outcome depends - it depends on the member countries, on the global economic environment, and even the timing of agreement.

### **6.3 From the Point of View of the Bahamas**

After studying the pros and cons of trade liberalisation, and analysing the effects that it has had on countries in the past, and also presenting the potential effects that it could have on the Bahamas, it could be stated that the Free Trade Areas of Americas and free trade in general would definitely have the impact of moving the country forward towards integration. Granted there will be some in the country who will benefit from the movement towards free trade more than others would, but the overall position of the country will be improved (Krenin, 1991 and Caves, et al, 1993). As was outlined, the

potential effects of the FTAA on the country could include such things as an increase in future per capita income and increased trade. It could also result in development in areas such as technology, production capabilities, labour market, the tax system, investment, and in society as a whole – all leading to a higher standard of living. The negligible negative effects that trade liberalisation will have on the country will be more than outweighed by such benefits it could derive from it. Therefore, it seems that trade liberalisation will indeed start the process off by which the Bahamas becomes integrated with its surrounding environment and neighbouring countries, as opposed to leading to a reversal from the country's current position.

In reference to the above conclusion, there are several important issues that remain unresolved and that must be addressed by the country's government in order for it to obtain the most from free trade. One such issue is how will the country overcome the problem of being too small to influence the negotiating process of any free trade agreement. Will the Bahamian government have the power to make a difference? The FTAA seems to present a special opportunity in this regard. Apart from taking procedures to deal with the special problems faced by small countries in such processes, the comprehensive nature of the agreement could allow for groups of countries to join together to present their views in the negotiation stage. Kotschwar and Hufbauer (1998) showed that the FTAA negotiations are being conducted partly by trading blocs and partly by individual countries. For example, they highlight that the Andean Community, the Central American Common Market (CACM) and the CARICOM, are approaching the agreement as one. Another important issue is the ability of the country's government to impose the adjustments and changes in a gradual manner, so as not to cause any undue

social unrest within the country. To date, the government seems to have done a good job in regard to this issue, as it has taken several key steps to ensure that the benefits of free trade are increased, without any major negative reaction in the country. These include such actions as privatisation of major public entities, as mentioned previously, or the establishment of various acts such as the Industrial Relations (Amendment) Act (1996) or the Securities Commission Act (1996). In summation, it could be said that free trade and integration seems to be the most feasible path for the country at this point in time. This is because the government of the Bahamas needs to make preparations to handle the changing competitive environment that the country will face in the future to ensure that it continues to grow and advance. If this requires becoming involved in such agreements like the FTAA, then so be it.

#### **6.4 Final Words**

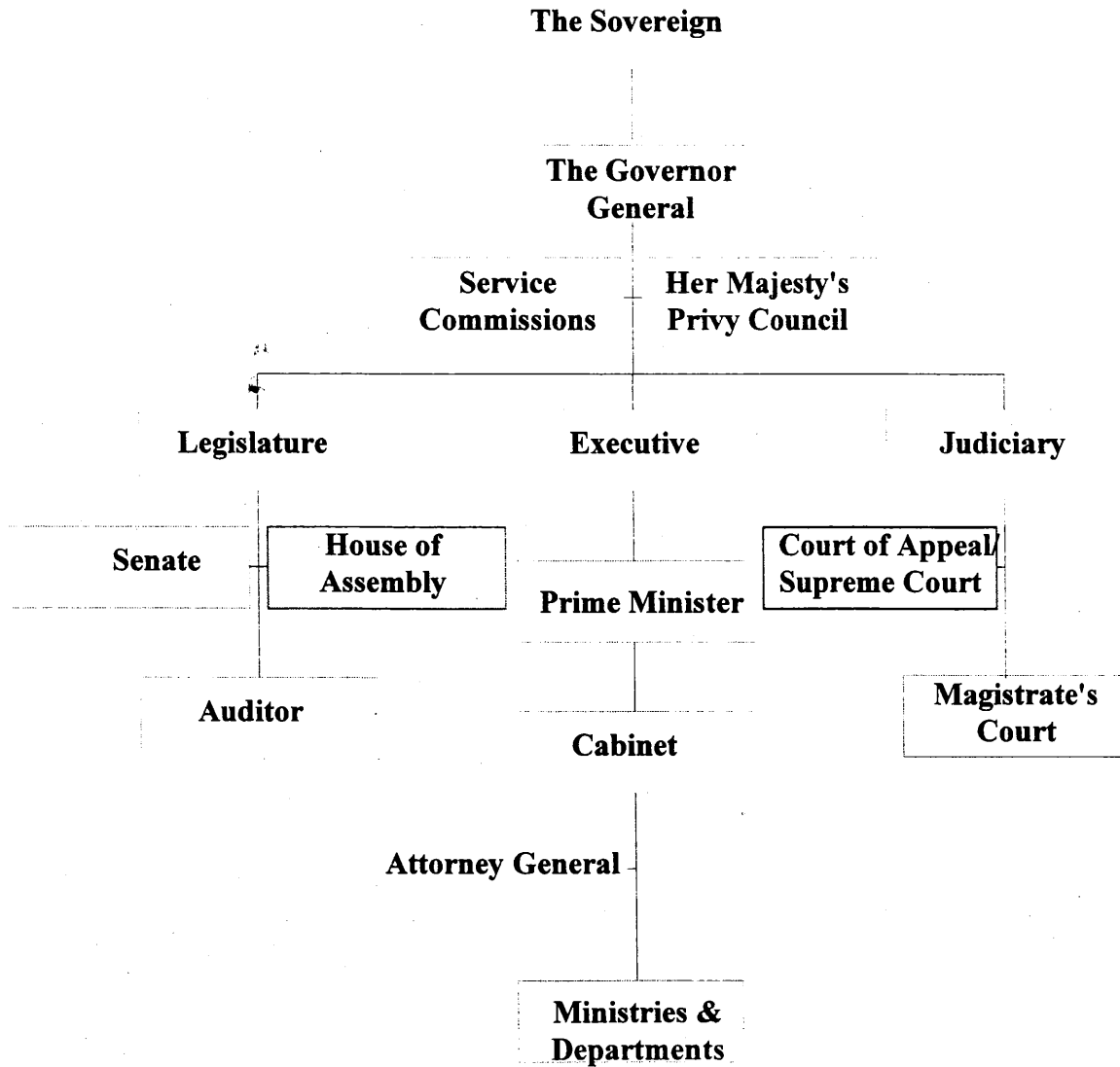
As we enter this new millennium, the world markets are becoming more integrated, forming what many term a global village. Many countries, especially developing ones, are increasingly seeing international trade as the route to development. This is evident from the escalating number of attempts at integration and trade liberalisation worldwide. In the Western Hemisphere, this is currently the case, as the countries in the region are moving closer and closer together to form an interconnected web that would facilitate the free movement of goods and services within the region. However, free trade is not a panacea, it is not likely to result in increased welfare by itself, but it can result in greater opportunities for countries. In the face of these facts, the Bahamas needs to view the preparations necessary for such free trade and integration as a

part of a larger process of developing a framework. A framework that is necessary for the country in moving away from its closed and protected system towards one that will increase its performance and maintain its competitive edge in the changing global markets.

## Appendices

**Appendix 1**  
**The Bahamian Political Structure**

**Figure 1:**



Source: Carrington, V. and Turnquest, H. (1972). Civics for the Bahamas. Longman Caribbean.



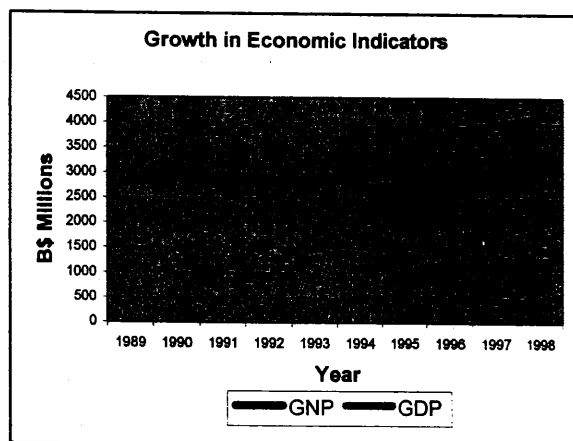
**Appendix 2**  
**Relevant Economic Indicators of Bahamian Economy**

**Table 1:**

**Gross National & Domestic Product**  
**(In Total and on Per Capita Basis)**

Year	GNP (B\$ Millions)	GDP (B\$ Millions)	GNP Per Capita	GDP Per Capita
1989	2833.02	2943.82	11,381	11,826
1990	2908.64	3046.94	11,421	11,964
1991	2756.18	2888.19	10,642	11,151
1992	2799.14	2857.14	10,603	10,822
1993	2779.06	2853.55	10,331	10,608
1994	2963.83	3053.13	10,857	11,184
1995	2974.45	3069.34	10,692	11,041
1996		3841.20	N/A	11,115
1997		3960.00	N/A	12,200
1998		4120.00	N/A	13,702

Source: Ministry of Finance, Commonwealth of the Bahamas Statistical Abstract, 1997.



**Inflation Rates**

Year	Rate
1993	2.80%
1994	1.40%
1995	2.10%
1996	1.40%
1997	0.50%
1998	1.40%

Source: Ministry of Finance, The Bahamas In Figures, 1998

**Appendix 3**  
**Growing Domestic Export Commodities**

**Table 3:**

	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>
<b>Crawfish</b>	38,409	58,359	56,148	57,210	59,462
<b>Salt Crude</b>	14,764	15,511	13,463	13,258	21,587
<b>Rum</b>	11,717	8,335	2,878	3,600	4,931
<b>Natural Sand</b>	-	4,835	2,640	5,951	2,623
<b>Other Crustaceans Molluses</b>	2,455	595	4,978	4,978	1,697
<b>Natural Sponge</b>	-	1,994	3,660	1,375	1,652
<b>Aragonite</b>	1,276	851	343	828	760
<b>Grapefruis</b>	1,611	937	619	708	720
<b>Limes</b>	564	603	889	462	764
<b>Conch Shells</b>	257	389	498	451	287
<b>Cucumbers</b>	751	466	426	39	-

**Appendix 4**  
**Revenue of the The Bahamas 1997-2000**

	<b>Provisional Actual Revenue 1997/98 B\$</b>	<b>Provisional Estimated Revenue 1998/99 B\$</b>	<b>Estimated Revenue 1999/2000 B\$</b>
<b>Tax Revenue</b>			
Import & export duties	369,534,393	403,925,400	441,984,000
Property tax	28,214,080	32,000,000	32,000,000
Motor vehicle tax	17,456,075	24,900,000	21,119,000
Gaming tax	21,919,003	20,000,000	19,000,000
Tourism tax	65,035,721	70,200,000	77,249,000
Stamp tax	150,203,443	152,000,000	170,121,000
Company fees	12,416,977	22,589,000	18,501,000
Bank & trust co fees	7,913,532	10,218,000	10,600,000
Insurance co fees	6,091,679	6,613,000	7,200,000
Other taxes	659,036	1,300,000	2,890,000
<b>Tax revenue sub-total</b>	<b>679,443,939</b>	<b>743,745,400</b>	<b>800,664,000</b>
<b>Non-Tax Revenue</b>			
Fees & service charges	62,703,332	71,050,000	74,393,000
Revenue from government property	13,432,242	14,180,600	13,765,000
Interest & dividends	9,974,234	8,036,000	8,575,500
Reimbursement & loan repayment	208,507	750,000	817,000
Services of commercial nature	13,935,662	14,238,000	15,957,000
<b>Non-tax revenue sub-total</b>	<b>100,253,977</b>	<b>108,254,600</b>	<b>113,507,500</b>
<b>Total tax &amp; Non-tax Revenue</b>	<b>779,697,916</b>	<b>852,000,000</b>	<b>914,171,500</b>
<b>Capital Revenue</b>			
Capital Revenue	704,380	0	4,000,000
Grants	500,000	5,000,000	1,000,000
Proceeds from borrowings	129,230,680	133,484,723	103,500,000
<b>Capital revenue sub-total</b>	<b>130,435,060</b>	<b>138,484,723</b>	<b>108,500,000</b>
<b>Total capital revenue</b>	<b>130,435,060</b>	<b>138,484,723</b>	<b>108,500,000</b>
<b>GRAND TOTAL all revenue</b>	<b>910,132,976</b>	<b>990,484,723</b>	<b>1,022,671,500</b>

*Source: The 2000 Bahamas Handbook*

**Appendix 5**  
**Bahamian Tariff Structure**

**Table 4:**

<b>Item</b> <b>(based on cif value)</b>	<b>Tariff</b>	<b>Stamp Duty</b>
<b>High Tariff Items</b>		
Fine Cut Tobacco	160%	7%
Pool Tables	100%	7%
Automobiles	45-65%	7%
Car Parts & Accessories	50%	7%
Video Tapes	65%	7%
Cigarettes	210%	7%
<b>Low Tariff Items</b> <b>(Staple Food Items)</b>		
Cheese	10%	2%
Pasta	10%	2%
Potatoes	Nil	2%
<b>Duty-Free Items</b>		
China	Nil	8%
Crystal	Nil	8%
Fine Jewellery	Nil	10%
Leather	Nil	20%
Crocheted Linens & Tablecloths	Nil	10%
Liquor	Nil	50%
Perfume and Cologne	Nil	20%
Photographic Equipment	Nil	8%
Sweaters	Nil	8%
Watches	Nil	10%
Orthopaedic appliances	Nil	7%
Artificial Limbs, Eyes, Teeth	Nil	7%
Hearing Aids/Other Appliances Worn	Nil	7%
Antiques Over 100 years	Nil	7%
Hand-made paintings, drawings, etc	Nil	7%

**Appendix 6**  
**Import & Export Statistics for The Bahamas for 1997**

**Value of 1997 Domestic Exports & Re-Exports (totals rounded off)**

<b>Category</b>	<b>B\$</b>
Food & live animals	66,172,054
Beverages & tobacco	5,460,330
Crude materials, inedible, except fuel	34,289,156
Mineral fuels, lubricants & related materials	0
Animal & vegetable oils & fats	3,537
Chemicals	34,232,891
Manufactured goods classified chiefly by materials	6,308,421
Machinery & transport equipment	30,494,367
Miscellaneous manufactured articles	4,425,954
Commodities & transactions not classified	6,000
	<u>181,392,710</u>

**Exports of Commodities to Principal Trading Areas (domestic & re-export)**

<b>Trading Areas</b>	<b>B\$</b>
UK	3,820,615
Canada	3,902,248
US	133,228,887
CCC	1,792,801
EU	22,693,668
Other Counties	15,919,500
OPEC	34,991
	<u>181,392,710</u>

**Value of 1997 Imports (totals rounded off)**

<b>Category</b>	<b>B\$</b>
Food & live animals	232,657,339
Beverages & tobacco	27,245,104
Crude materials, inedible, except fuel	35,560,726
Mineral fuels, lubricants & related materials	148,493,270
Animal & vegetable oils & fats	3,598,983
Chemicals	167,539,802
Manufactured goods classified chiefly by materials	286,702,712
Machinery & transport equipment	466,036,465
Miscellaneous manufactured articles	218,772,670
Commodities & transactions not classified	35,419,539
	<u>1,622,026,610</u>

**Imports of Commodities from Principal Trading Areas**

<b>Trading Areas</b>	<b>B\$</b>
UK	11,843,367
Canada	10,893,122
US	1,469,602,201
CCC	3,119,256
EU	26,827,210
Other Counties	90,628,422
OPEC	9,113,032
	<u>1,622,026,610</u>

**Appendix 7**  
**Listing of Potential Member Countries**  
**Of FTAA**

**Table 6:**

<b>Antigua &amp; Barbuda</b>	<b>Dominican Republic</b>	<b>Paraguay</b>
<b>Argentina</b>	<b>Ecuador</b>	<b>Peru</b>
<b>Bahamas</b>	<b>El Salvador</b>	<b>St. Kitts &amp; Nevis</b>
<b>Barbados</b>	<b>Grenada</b>	<b>St. Lucia</b>
<b>Belize</b>	<b>Guatemala</b>	<b>St. Vincent</b>
<b>Bolivia</b>	<b>Guyana &amp; the Grenadines</b>	<b>Suriname</b>
<b>Brazil</b>	<b>Haiti</b>	<b>Trinidad &amp; Tobago</b>
<b>Canada</b>	<b>Honduras</b>	<b>Uruguay</b>
<b>Chile</b>	<b>Jamaica</b>	<b>U.S.A.</b>
<b>Colombia</b>	<b>Mexico</b>	<b>Venezuela</b>
<b>Costa Rica</b>	<b>Nicaragua</b>	
<b>Dominica</b>	<b>Panama</b>	

**Appendix 8**  
**Listing of Major Trade Agreements in Western Hemisphere**

**Table 7:**

**Type: Free Trade Agreements - Plurilateral**

<b>Name of Agreement</b>	<b>Countries Involved</b>	<b>Date Enacted</b>
Mercosur-Bolivia	Brazil, Argentina, Uruguay, Paraguay, Bolivia	1997
Mercosur-Chile	Brazil, Argentina, Uruguay, Paraguay, Chile	1996
Group of Three (G-3)	Mexico, Columbia, Venezuela	1995
NAFTA	U.S., Canada, Mexico	1994

**Type: Free Trade Agreements – Bilateral**

<b>Name of Agreement</b>	<b>Date Enacted</b>
Caricom-Dominican Republic	1998
Central-America – Dominican Republic	1998
Mexico-Nicaragua	1998
Canada-Chile	1997
Bolivia-Mexico	1995
Chile-Ecuador	1995
Costa Rica – Mexico	1995
Chile-Columbia	1994
Chile-Venezuela	1993
Chile-Mexico	1992

**Type: Custom Unions**

<b>Name of Agreement</b>	<b>Date Enacted</b>
Central American Common Market (CACM)	1961
Caribbean Community (CARICOM)	1973
Mercosur	1995
Andean Community	1969, Revised 1998

*Source: Hufbauer & Kotschwar.*  
*The Future of Regional Trading Arrangements in the Western Hemisphere.*

**Appendix 9**  
**Description of FTAA Negotiating Groups**

**Table 8:**

<b>Focus Area</b>	<b>Chair</b>	<b>Main Objective</b>
<b>Market Access</b>	<b>Columbia</b>	<b>To progressively eliminate tariffs and non-tariff barriers, and equivalent measures, which restrict trade between participating countries.</b>
<b>Investment</b>	<b>Trinidad &amp; Tobago</b>	<b>To establish a fair and transparent legal framework to promote investment through the creation of a stable and predictable environment that protects the investor, his investment and related flows, without creating obstacles to investments from outside the hemisphere.</b>
<b>Services</b>	<b>United States</b>	<b>Establish disciplines to progressively liberalise trade in services, so as to permit the achievement of a hemispheric free trade area under conditions of certainty and transparency.</b>
<b>Govt. Procurement</b>	<b>United States</b>	<b>The broad objective of negotiations in government procurement is to expand access to the government procurement markets of the FTAA countries.</b>
<b>Dispute Settlement</b>	<b>Costa Rica</b>	<b>To establish a fair, transparent and effective mechanism for dispute settlement among FTAA countries. Also to design ways to facilitate and promote the use of arbitration and other alternative dispute settlement mechanisms, to solve private trade controversies in the framework of the FTAA.</b>
<b>Agriculture</b>	<b>Argentina</b>	<b>To eliminate agricultural export subsidies affecting trade in the Hemisphere, also to identify other trade-distorting practices for agricultural products with similar effects and bring them under greater discipline.</b>



**Appendix 9 Cont'd**  
**Description of FTAA Negotiating Groups**

**Table 8 Cont'd:**

<b>Focus Area</b>	<b>Chair</b>	<b>Main Objective</b>
<b>Intellectual Property Rights</b>	<b>Mexico</b>	<b>To reduce distortions in trade in the Hemisphere and promote and ensure adequate and effective protection to intellectual property rights. Will also consider changes in technology.</b>
<b>Subsidies, Antidumping and Countervailing Duties</b>	<b>Venezuela</b>	<b>To achieve a common understanding with a view to improving, where possible, the rules and procedures regarding the operation and application of trade remedy laws in order to not create unjustified barriers to trade in the Hemisphere.</b>
<b>Competition Policy</b>	<b>Columbia</b>	<b>To guarantee that the benefits of the FTAA liberalisation process not be undermined by anti-competitive business practices.</b>

Source: FTAA Homepage, [http://www.ftaa.alca.org/ngroup\\_e.asp](http://www.ftaa.alca.org/ngroup_e.asp)

**Appendix 10**  
**Bahamian Per Capita Income**

**Table 9: A) Average Growth In Per Capita Income**

Year	GDP Per Capita	Average Growth Rate
1989	11,826	
1990	11,964	1.17%
1991	11,151	-6.80%
1992	10,822	-2.95%
1993	10,608	-1.98%
1994	11,184	5.43%
1995	11,041	-1.28%
1996	11,115 *	0.67%
1997	12,200	9.76%
1998	13,702	12.31%
		<u>1.82%</u>

Source: Commonwealth of the Bahamas Statistical Abstract, 1997. Department of Statistics  
 Last three years are provisional estimates

**B) Projected Growth Over the Long-Term**

Year	Without FTAA <sup>1</sup>
1999	13,951
2000	14,204
2001	14,462
2002	14,724
2003	14,992
2004	15,264
2005	15,541
2006	15,823
2007	16,110
2008	16,403
2009	16,701
2010	17,004
2011	17,312
2012	17,627
2013	17,947
2014	18,272
2015	18,604
2016	18,942
2017	19,286
2018	19,636
2019	19,992
2020	20,355
2021	20,725
2022	21,101
2023	21,484
2024	21,874
2025	22,271

**Notes:**

<sup>1</sup> Using Average Growth Rate  
 as Calculated

**Part C**  
**Projected Growth Over the Long-Term**

<b>Year</b>	<b>Bahamas With FTAA<sup>2</sup></b>	<b>Canada<sup>3</sup></b>
1999	13,951	19,640
2000	14,090	19,738
2001	14,231	19,837
2002	14,373	19,936
2003	14,517	20,036
2004	14,662	20,136
2005	14,809	20,237
2006	14,957	20,338
2007	15,107	20,439
2008	15,258	20,542
2009	15,410	20,644
2010	15,564	20,748
2011	15,720	20,851
2012	15,877	20,956
2013	16,036	21,060
2014	16,196	21,166
2015	16,358	21,272
2016	16,522	21,378
2017	16,687	21,485
2018	16,854	21,592
2019	17,023	21,700
2020	17,193	21,809
2021	17,365	21,918
2022	17,538	22,027
2023	17,714	22,137
2024	17,891	22,248
2025	18,070	22,359
2026	18,250	22,471
2027	18,433	22,583
2028	18,617	22,696
2029	18,803	22,810
2030	18,992	22,924
2031	19,181	23,039
2032	19,373	23,154
2033	19,567	23,270
2034	19,763	23,386
2035	19,960	23,503
2036	20,160	23,620
2037	20,361	23,738
2038	20,565	23,857
2039	20,771	23,976
2040	20,978	24,096
2041	21,188	24,217
2042	21,400	24,338
2043	21,614	24,460
2044	21,830	24,582

Year	Bahamas With FTAA <sup>2</sup>	Canada <sup>3</sup>
2045	22,049	24,705
2046	22,269	24,828
2047	22,492	24,952
2048	22,717	25,077
2049	22,944	25,203
2050	23,173	25,329
2051	23,405	25,455
2052	23,639	25,582
2053	23,875	25,710
2054	24,114	25,839
2055	24,355	25,968
2056	24,599	26,098
2057	24,845	26,228
2058	25,093	26,360
2059	25,344	26,491
2060	25,598	26,624
2061	25,854	26,757
2062	26,112	26,891
2063	26,373	27,025
2064	26,637	27,160
2065	26,903	27,296
2066	27,172	27,433
2067	27,444	27,570
2068	27,719	27,708
2069	27,996	27,846
2070	28,276	27,985
2071	28,559	28,125
2072	28,844	28,266
2073	29,133	28,407
2074	29,424	28,549
2075	29,718	28,692
2076	30,015	28,836
2077	30,315	28,980
2078	30,619	29,125
2079	30,925	29,270
2080	31,234	29,417
2081	31,546	29,564
2082	31,862	29,712
2083	32,180	29,860
2084	32,502	30,009
2085	32,827	30,159

**Notes:**

As this process was only done to speculate on the convergence in income between developed and developing countries under an environment of free trade, the average annual growth rate for each country's per capita income was ignored, and only a rate of convergence that is illustrative of Barro, Sala-i-Martin and Ben-David studies was used.

<sup>2</sup> Using the rate of convergence predicted by Barro, Sala-i-Martin Study and Ben-David

<sup>3</sup> Source of the 1999 GDP is CanadaUSInvestment.Com Website, Robert W. Hort & Associates.

**Appendix 11**  
**Current Growth Rate of Bahamian Exports (Projected Into Future)**  
**(B\$ Million)**

Table 10:

Year	Amt of Exports	% Change
1987	3728	
1988	2164	<b>-42%</b>
1989	2567	<b>19%</b>
1990	238	<b>-91%</b>
1991	226	-5%
1992	192	<b>-15%</b>
1993	162	<b>-16%</b>
1994	167	3%
1995	176	5%
1996	181	3%
1997	182	1%
		<hr/>
		1.4%
		<hr/> <hr/>

Note: (1) The numbers that bold where taken to be outliers, and where left out of the calculation of the average export growth rate.

(2) Base Year - 1997

Source: Commonwealth of the Bahamas Statistical Abstract, 1997  
 The Bahamas in Figures, 1998

**Projection Over Next Ten Years**  
**(B\$ Million)**

Year	Without FTAA	With FTAA <sup>3</sup>
1998	185	202
1999	187	224
2000	190	249
2001	192	276
2002	195	307
2003	198	340
2004	201	378
2005	203	419
2006	206	466
2007	209	517

Note: (3) This is calculated using the latest World Bank Indicator that could be discovered, that is 11% in 1991 - will continue research for a more updated indicator.

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