ACCESSION OF CHILE TO THE NORTH AMERICAN FREE TRADE AGREEMENT

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BEFORE THE

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OF THE

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STATEMENT OF
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BEFORE THE
HOUSE WAYS AND MEANS TRADE SUBCOMMITTEE

JULY 13, 1995

CHILE'S ACCESSION TO THE NAFTA

Mr. Chairman, thank you for providing me this opportunity to submit testimony before your Subcommittee on Chile's bid to join the NAFTA. As the Subcommittee moves forward with its review of this development -- which will have a far-reaching impact on trade relations throughout Latin America and the Caribbean -- I believe it is important to provide you with a Jamaican perspective on some of the issues surrounding Chile's accession.

A. Chile and The March to 2005

Last December, the 34 Democratically elected nations of the Hemisphere came together in Miami to hammer out an agreement to launch a Free Trade Area of the Americas (FTAA) by the year 2005. Last month, the trade ministers of those countries convened in Denver to determine how to take the next steps in this important goal.

The relative speed with which Chile has already commenced active negotiations with the NAFTA partners, is a heartening indication of the momentum behind the FTAA process. If the NAFTA was the first step in the road toward Hemispheric free trade, then Chile's accession can indeed be seen as a solid second step. Hopefully, this path will converge with other paths now being forged toward the goal of free trade by other countries such as those constituting CARICOM, Mercosur, and the Andean pact -- to name a few.

B. The US/Caribbean Trade Relationship

In the dozen years since it has been enacted, the Caribbean Basin Initiative (CBI) has emerged as an important stimulus of economic development in the Caribbean Basin and of trade linkages throughout the region. The effect has been felt -- not only in Kingston and Montego Bay -- but also in Chicago, Miami, Baltimore, New York, and hundreds of other communities throughout the United States. Through its combination of trade, investment, and tax policies, the CBI legislation has progressively established a framework that has facilitated mutually beneficial, U.S./Caribbean economic links. In turn, Jamaica and other Caribbean countries have matched the liberalizing reforms enacted by the CBI to launch their own trade and investment economic reform programs. Together, the United States and Caribbean countries have created a trade partnership worth more than $20 billion a year, employing hundreds of thousands of workers throughout the region.

The successes of the CBI legislation are reflected in the figures signalling robust growth in the U.S./Caribbean trade partnership. Since the mid-1980's, U.S. overall exports to the Caribbean have expanded by over 100 percent and Caribbean exports to the United States have climbed by roughly 50 percent. The Caribbean Basin now comprises the tenth largest market for the United States, and is one of the few regions where the United States consistently posts a trade surplus. With combined trade exceeding $24 billion in 1994, U.S./Caribbean commercial links support more than 265,000 jobs in the United States and countless more throughout the Caribbean and Central America. During the past decade, nearly 16,000 American jobs have been created each year as U.S. trade links with the Caribbean have expanded. Throughout the

Caribbean, where the economies are much more dependent upon trade, increased exports to the United States has generated hundreds of thousands of additional jobs. Such employment growth has been felt in both export industries, as well as in the many sectors that cater to these industries.

C. NAFTA's Future and the Caribbean

Jamaica is observing the debate surrounding Chile's accession with great interest for several reasons:

First, we would hope that, as the Congress considers Chile's bid to join the NAFTA, it also take into account US trade relations with the Caribbean and how those relations may be affected by Chile's entry into NAFTA. As you know, the successes of the CBI are already being eroded inadvertently because of preferential access to the US market granted to Mexico under the NAFTA. Already, trade statistics have documented a diversion of trade and investment from CBI countries to Mexico. If this disruption persists, business confidence in the Caribbean region could be permanently injured. In much the same way, Chile's accession to the NAFTA has the potential to exacerbate this disruption.

It is in this context, that Jamaica supports The Caribbean Basin Trade Security Act (HR 553), which has been adopted by this Subcommittee, as a means of directing attention to the US/Caribbean relationship. Specifically, Jamaica heartily endorses Section 202(c) of that bill, which requires the Administration to submit a "parity review" in the event that another country joins the NAFTA. In the event that the Administration determines that a future NAFTA partner could adversely affect US/Caribbean trade linkages, the USTR is then required to submit proposals to minimize this adverse impact. Such a provision is a key element of the parity debate, since it fosters a continual vigilance of the US/Caribbean trade relationship on the part of the Administration.

Second, Chile's accession gives rise to an obvious question concerning what happens in the NAFTA accession process after Chile joins the NAFTA. In a very real sense, who's next? Jamaica believes that it is not too early to begin addressing this question by at least establishing a dialogue to determine how the next NAFTA partners may be chosen. This is particularly key given the deadline established by Section 108 of the NAFTA Implementing Act, which requires the President to identify likely NAFTA partners by July 1, 1997. Although future NAFTA accession may be overtaken by events surrounding the FTAA process, a clear and consistent set of guidelines for NAFTA accession will also strengthen the understanding of free trade obligations throughout the hemisphere.

A concern that is shared in Jamaica and in other parts of the Caribbean is that the NAFTA expansion will focus exclusively on those countries which present the biggest markets -- the so-called "Big Emerging Markets" -- for the United States. While the prospect of a large market might be appealing, I would respectfully point to several other factors that could ease future NAFTA accessions. First, given the contentious debate surrounding the NAFTA, and the concerns that have arisen regarding the Chile accession, it may be logical to look to countries that have already achieved many of the NAFTA trade liberalizing principles and criteria. If a large market has a long way to go before achieving may of the NAFTA disciplines, it may be too large for NAFTA to digest.

Attention must be focused on those countries that are complementary to the NAFTA markets. Such countries, especially those with smaller economies, could "fit" well with the NAFTA, providing the least competitive friction (and disruption) to industries in the NAFTA countries. Choosing a smaller economy could also signal other small economies throughout the Hemisphere that the free trade process is inclusive. In her testimony on

Chile's accession to the NAFTA, Ambassador Charlene Barshefsky pointed to Chile as a psychological and tangible link bridge between NAFTA and the Mercosur countries. In the same manner, accession of a Caribbean country to the NAFTA would provide an important link to the rest of CARICOM and the CBI countries.

D. Jamaica's readiness for free trade

In that context, ***Jamaica is deeply committed to an open multilateral trading system is a stimulant to economic growth,*** both through the static gains from increased efficiency in the utilization of its existing resources and the dynamic gains from the opportunities to expand productive capacity through new technology, investment, and innovative entrepreneurship.

Jamaica is an advocate of trade liberalization within the hemisphere and of a multilateral trading system that approaches free trade as far as possible. Jamaica subscribes to, and its policy has always been fully consistent with, the principles and disciplines of the GATT. Jamaica joined the GATT in the early 1960's and has been an active participant in, and has contributed to, successive negotiating rounds aimed at further liberalization of global trade.

Moreover, Jamaica actively participates in several regional trade-liberalization arrangements with the United States (the Caribbean Basin Initiative -- CBI), Europe (the LOME Convention), Canada (CARIBCAN), and the other English speaking countries in the Caribbean (the Caribbean Common Market - CARICOM). All of these arrangements are intended to promote trade between the member countries. Finally, Jamaica also has supported the creation of free trade within the Western Hemisphere using the North American Free Trade Area (NAFTA) as a first building block of free trade within the hemisphere.

Jamaica realizes that there is now a new phase of globalization of production and finance which is rapidly sweeping away national barriers to the movement of goods, services, capital, and finance. During the 1980's, Jamaica's economic policies focused on economic reform, stabilization, and structural adjustment in an attempt to create an environment conducive to a private sector-led, market-driven, outward-looking growth strategy. An important aspect has been a comprehensive program of trade liberalization involving substantially reduced tariffs and the elimination of quantitative trade restrictions. This has been complemented by freeing market forces within the domestic economy through the abolition of price and exchange controls by a vigorously implemented campaign of privatization and fiscal and monetary discipline. A stable, market-determined exchange rate system is operating successfully, preventing any disruptive changes in the value of the Jamaican dollar.

In the last four years there has been a substantial acceleration in the process of liberalizing the trade regime of Jamaica, with an emphasis on the removal of import restrictions and the lowering of tariffs. In many ways, US products in the Jamaican market are accorded better access than Jamaican products in the US market because Jamaica does not rely upon quotas as a tool of trade policy. Jamaican sugar and apparel products, for example, still face US quotas.

This commitment to outward-looking trade and development policies is firmly based on the knowledge that the benefits to be derived are those of higher growth rates and enhanced capacity to adjust to external shocks. Expanding trade contributes to Jamaica's growth by enabling the economy to improve its productivity by specializing in exports in which it has a comparative advantage. Production for the world market allows firms to achieve the economies of scale which are precluded by a small domestic market. Exposure to competition from imports serves to

improve cost efficiency and benefits consumers by lower prices.

Jamaica now sees the CBI program as a springboard to greater hemispheric free trade liberalization. In many cases, we have already taken steps that exceed the requirements of the CBI to help accelerate this goal. *Jamaica has already signed both a bilateral investment treaty (BIT) and an intellectual property rights (IPR) agreement with the United States. We were also one of the first countries to include new anti-circumvention language in our bilateral textile agreement with the United States.*

Jamaica is ready and has a demonstrated commitment to enter the next stage of trade liberalization with the United States -- that of negotiating a free and reciprocal trade agreement.

E Conclusion

Chile's imminent membership in NAFTA is a welcome development that provides a tangible boost to the prospects of free trade in the hemisphere. Care must be taken, however, that the expansion of NAFTA is not carried out at the expense of other established trading relationships in the region. The United States and the Caribbean have enjoyed an intimate, and mutually beneficial, trading relationship for the past twelve years. With proper attention, this relationship can be strengthened and expanded in the coming decade as well.