

Recommendation 15

The Department of External Affairs should examine the idea of a free-trade Agreement with the TCI (and perhaps other British dependencies in the Caribbean) as well as other countries in the region) to determine if it would be desirable and feasible.

XI. INDUSTRIAL "FREE TRADE" ZONE

Several Caribbean islands and a number of other nations in the region (e.g. Panama) have established industrial "free trade" zones to promote employment and to increase foreign exchange earnings. In general, such "free trade" zones in the host country appear more likely to achieve their objectives if they meet certain criteria; e.g.:

- (a) the local costs of production, especially labour, land, capital and other inputs (ie energy, raw materials) are at least competitive with other locations;
- (b) efficient transportation facilities are available capable of handling imports and exports at competitive rates;
- (c) the local government continues to respect the duty and tax free arrangements on imports and re-exports and does not become greedy or allow "leakages" in the system;
- (d) there is not a high level of competition among other countries with considerable "free trade" zones in the region;
- (e) the host country enjoys other comparative advantages - perhaps in purchasing, processing/manufacturing, packaging and marketing; and
- (f) the economy of the host country is large enough to be able to absorb some of the goods coming through the "free trade" zone at competitive prices after paying taxes and customs duties on "exports" to the domestic market.

Based upon the information available at this time it would seem that the Islands may not satisfy several of the key criteria. The Islands lack direct shipping facilities to a number of nations in the Caribbean Basin and the Islands' ports are not now capable of handling a significantly larger volume of traffic. The costs of production in the TCI may be somewhat higher than those in other Caribbean states. These constraints may not rule out a modest industrial "free trade" zone which would utilize existing transportation facilities. However, real success might depend on finding the right product mix to take maximum benefit from the TCI location, economy and any other advantages relative to other states in the region.