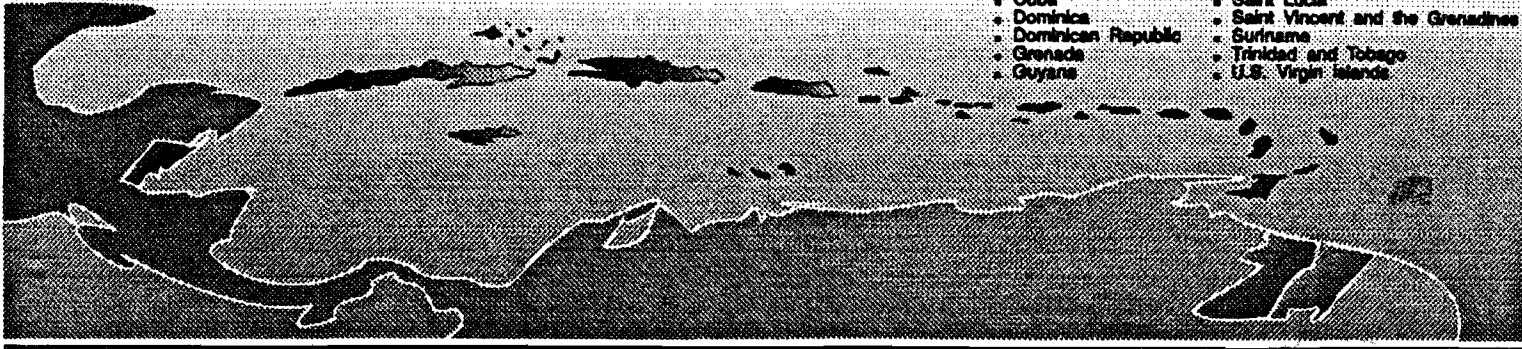




UN ECLAC/CDCC

- Antigua and Barbuda
- Aruba
- Bahamas
- Barbados
- Belize
- Br. Virgin Islands
- Cuba
- Dominica
- Dominican Republic
- Grenada
- Guyana
- Haiti
- Jamaica
- Montserrat
- Netherlands Antilles
- Puerto Rico
- Saint Kitts and Nevis
- Saint Lucia
- Saint Vincent and the Grenadines
- Suriname
- Trinidad and Tobago
- U.S. Virgin Islands



Fifteenth session of CDCC
 Santo Domingo, Dominican Republic
 26-29 July 1994

GENERAL
 LC/CAR/G.424
 11 July 1994
 ORIGINAL: ENGLISH

**EVOLUTION OF CARIBBEAN ECONOMIC INTEGRATION:
 A BRIEF REVIEW**



UNITED NATIONS
ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN
 Subregional Headquarters for the Caribbean
CARIBBEAN DEVELOPMENT AND COOPERATION COMMITTEE

10

11

12

13

14

EVOLUTION OF CARIBBEAN ECONOMIC INTEGRATION: A BRIEF REVIEW

Early history

Because of their small size and limited resource base, the countries of the Caribbean have always expressed keen interest in economic integration. Despite setbacks suffered in the past, this interest continues to the present day. The 13 countries that make up the Caribbean Community (CARICOM)¹ are a uniquely small economic grouping: together they have only 5.5 million inhabitants, while their foreign trade (exports plus imports) does not exceed 11 thousand million dollars.

As a common market, CARICOM has not been very successful. Despite considerable effort to deepen integration, the CARICOM market absorbs no more than 6 to 8 per cent of the total exports of member countries. While it is true that these percentages are higher for the smallest countries, they have little weight in the total trade of the subregion. CARICOM continues to depend heavily on extra-subregional suppliers for its food requirements, and manufacturing industries created behind a protectionist wall have shown little ability to penetrate outside markets.

It is important to keep in mind, however, that from the outset Caribbean integration involves more than intra-subregional trade. The major objectives were and still are: economic integration, functional cooperation and common services in a number of areas, and coordination of foreign policies. These objectives are pursued through an elaborate institutional structure that comprises two integration secretariats: the CARICOM Secretariat, servicing the Commonwealth Caribbean Heads of Government conferences and the Common Market Council, and the Central Secretariat of the Organization of Eastern Caribbean States (OECS) which services the Heads of Government Authority of these States as well as the East Caribbean Common Market (ECCM).

The CARICOM Secretariat is located in Guyana while the OECS Secretariat has its main headquarters in Saint Lucia and an Economic Affairs Division in Antigua and Barbuda. CARICOM was established in 1973 by the Treaty of Chaguaramas as successor to the Caribbean Free Trade Association (CARIFTA - created in 1965). The OECS was

¹ Full members of CARICOM are four "more developed countries", Barbados, Guyana, Jamaica and Trinidad and Tobago along with eight "less developed countries", namely Antigua and Barbuda, Belize, Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines. The Bahamas, also defined by the Treaty as a "more developed country", is a member of the Community, but does not participate in the common market. Suriname, the Dominican Republic and Haiti have observer status; on numerous occasions they have expressed interest in becoming full members. Anguilla, the British Virgin Islands and the Turks and Caicos Islands have expressed similar interest.

established in 1981,² replacing the West Indies Associated States, and creating an umbrella organization encompassing the ECCM and certain other subregional organizations and functions, including the Eastern Caribbean Central Bank (prior to 1983, the Eastern Caribbean Currency Authority), the Eastern Caribbean Tourism Association, the Eastern Caribbean Civil Aviation Authority, the Supreme Court of the OECS, etc.

With the Treaty of Chaguaramas, the four "more developed countries" of CARICOM agreed in 1973 on a common external tariff. This was to have been adopted by the remaining eight countries, but to date this has not happened. Seven of the eight "less developed countries" (Belize is the exception) are members of the OECS, and all have retained their own, less protectionist, external tariffs. The Bahamas does not participate in the Common Market, so there is no need for that country to harmonize its external tariff with the rest of CARICOM.

A CARICOM scheme for harmonization of fiscal incentives to industry was set up in 1973, and revised in 1988. At the same time, provision was made for industrial programming (the assignment of industries to individual countries) and for the development of multinational firms (the CARICOM Enterprise Regime). At the level of CARICOM, neither of these instruments have been applied, but within the OECS a number of industries have been allocated to member countries.

Cooperation in the agricultural sector has been more ambitious, but no more successful. Protocols to the Chaguaramas Treaty cover the marketing of sugar, oils and fats, and another 22 selected agricultural products. The aim is to ensure that surpluses are taken up by non-producing and deficit countries. A number of factors, including declining sugar production, lack of demand for coconut oil (the main edible oil produced in the subregion), and exclusion of most agricultural products from intra-CARICOM free trade, accounts for the failure to increase subregional self-sufficiency in agricultural production.

CARICOM differs from other integration schemes in the region in its emphasis on cooperation in areas other than foreign trade. Autonomous subregional institutions have been created in agriculture (the Caribbean Food Corporation), energy (CARICOM Oil Facility), transportation (the Caribbean Aviation Training Institute) and tourism (the Caribbean Tourism Organization).

In health, the Caribbean Environmental Health Institute (CEHI) operates from Saint Lucia and the Caribbean Epidemiological Centre (CAREC) from Trinidad and Tobago. The Caribbean Meteorological Organization (CMO) maintains a close watch on weather patterns

² The seven members of the OECS are Antigua and Barbuda, Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines. The British Virgin Islands and the Turks and Caicos Islands are associate members, but do not participate in CARICOM, nor in the common market of the OECS.

and offers training for meteorologists in the subregion, while the Caribbean Disaster Emergency Response Agency (CDERA) in Barbados mobilizes intra-CARICOM aid when hurricanes or other disasters strike the subregion.

In education, the Caribbean Examinations Council (CXC) examines thousands of secondary school students each year in a wide range of subjects. The University of the West Indies, which has campuses in different CARICOM countries, existed before the formation of CARICOM, but is now part of the CARICOM system.

The intent of this functional cooperation is to achieve economies of scale, to avoid costly duplication of services in each country. Many of these efforts have been successful, but others have required large subsidies in order to compete with private enterprise. This is evidenced by the recent dissolution of the West Indies Shipping Corporation (WISCO) and the decision to privatize LIAT, a subregional airline that services numerous islands in the Caribbean.

The decline of integration in the 1980s

Because of their extreme dependence on foreign trade, the impact of the world recession on the Caribbean economies has been very strong. In an attempt to respond to the drop in foreign exchange earnings, the countries imposed numerous restrictions on imports from all countries. As a consequence, intra-CARICOM trade dropped sharply to 142 million dollars in 1986, a 63 per cent fall from the historical high of 380 million dollars reached in 1982.

During most of the decade of the 1980s, attempts were made to reactivate intra-CARICOM trade and to reverse the regressive trend the integration movement had taken. One important attempt was the Nassau Agreement of July 1984, which, among other things, called for the elimination of restrictions on intra-subregional trade. Some progress was made, but removal of trade restrictions were always partial and always with considerable delay in each country. At the same time, the CARICOM Secretariat continued with measures designed to improve the instruments of the Common Market, such as revised rules of origin, a new system of customs valuation and harmonization of fiscal incentives.

The Caribbean Multilateral Clearing Facility (CMCF) was established in 1977 and in its best years covered as much as 85 per cent of intra-CARICOM payments. Operations were suspended in March of 1983 when Guyana accumulated a debt of 100 million dollars, which depleted the fund. The CMCF is not intended to provide a supply of loanable funds, so it is clearly unworkable in the face of persistent payment imbalances. There have been numerous attempts to reform the facility. None have met with success, largely because of the inability of Guyana to meet its debts and because of the unwillingness of other CARICOM countries to inject liquidity into the system.

In the year 1987, after a period of structural adjustment in some of the economies, many countries in the subregion began to show signs of recovery. In this year, it was possible to remove most of the non-tariff barriers to intra-CARICOM trade, and this produced an increase in intra-subregional trade. The participation of intra-CARICOM exports in total exports increased from 5.9 per cent in 1986 to 8.1 per cent in 1989, but failed to increase in the 1990s. Today the total value of intra-CARICOM trade, even when measured in current dollars, is far below that recorded at the beginning of the 1980s. As reductions in tariff and non-tariff barriers to extra-CARICOM imports erode CARICOM preferences, there is no expectation of any sharp increase in intra-CARICOM trade in the near future.

New paths to economic integration and cooperation

Beginning in the year 1986, Caribbean countries have demonstrated greater willingness to reach an understanding regarding integration of their economies. Several factors have contributed to this change in attitude. Along with economic recovery in many of the countries, there is greater similarity in the economic policies implemented by CARICOM governments, which are increasingly oriented along liberal lines. The prospect of a united Europe, beginning in the year 1993 increased worries that preferential access to that market might be eroded. In addition, the example of integration between the United States and Canada brought an acceleration of integration in the rest of the continent. Finally, the negotiators of the subregion participated in forums to renew the Lomé and CBI agreements. There they learned the value of working together once again toward a common cause, as they had done in the 1970s. As was the case with other integration schemes in Latin America, it was the Heads of Government who imparted dynamism to the integration movement.

In their Tenth Summit Meeting, which took place in Grand Anse, Grenada in July of 1989, the CARICOM Heads of Government repeated their commitment to the re-establishment of basic conditions to permit the common market to function and to advance in the integration of their countries. Thus they reaffirmed the goal of arriving, as soon as possible, to a single market and economy. Later they fixed 1994 as the year by which this goal was to be attained. With this objective they adopted the following decisions:

(a) By 1 January 1991, three basic instruments of the common market were to be revised and agreed upon: common external tariff, rules of origin and a harmonized system of fiscal incentives;

(b) The quick approval by countries, where this was still outstanding, of the Protocol that is to set up the Industrial Programming Scheme;

(c) Member countries were urged to apply effectively the CARICOM Enterprise Regime, which was agreed upon in October of 1988;

(d) It was agreed that the Multilateral Clearing Facility be reopened by the end of 1990;

(e) Common efforts to increase food security in the subregion were to be expanded;

(f) Take action to establish, toward mid-1992, a subregional system of maritime and air transport; and

(g) Eliminate, beginning in 1991, the requirement that CARICOM nationals carry a passport when they travel within the subregion. This measure forms part of a package that points toward the liberalization of movement of labour, including emission of work permits and mutual recognition of social security rights.

At that meeting, the Heads of Government also resolved to initiate studies on the adoption of a common currency and the establishment of a subregional capital market, with the goal of monetary union in 1995. Finally, they approved, in principle, the creation of an Assembly of Parliamentarians of the Community and agreed on the composition of the Caribbean Appeals Court.

The Heads of Government met again, in their Eleventh Summit, in Kingston, Jamaica in August of 1990. On this occasion they adopted the following resolutions relating to integration:

(a) April 1991 was agreed upon as the date by which a new common external tariff (CET) would be completed, along with revised rules of origin for intra-CARICOM trade and the fiscal harmonization scheme. The CET was to be applied immediately by the four "more developed countries"; the remaining countries, with the exception of Montserrat, would apply the CET by the end of 1991, while Montserrat would do so in January of 1994, on which date the Community would operate as a single market;

(b) To move towards this goal, all restrictions on intra-CARICOM trade were to be removed by mid-1991;

(c) Legislation concerning the CARICOM Enterprise Regime ought to be applied beginning at some time in the course of the year 1991; and

(d) A defence force was to be created to strengthen security in the subregion, a point emerging from the aftermath of the attempted coup in Trinidad and Tobago in July of 1990.

In their Twelfth Meeting, in Saint Kitts and Nevis in July of 1991, the Heads of Government decided to apply a series of measures identified as priority needs by the West Indian Commission. The Independent Commission was created in 1989 with the purpose of

finding formulae to reactivate the Caribbean Community. The six areas identified by the Commission were: promotion of the common market; free movement of West Indians in their region; right for graduates of UWI (and other institutions to be identified) and media people to work and live freely anywhere in the region; creation of a common currency; promotion of intra-community investment; and attainment of joint position for international negotiations.

In view of the delays experienced in applying the common external tariff, the Heads agreed to postpone its effective date of implementation to 1 October 1991. The lower and upper limits of the CET were placed at 5 per cent and 45 per cent, respectively. At the same time, member countries ought to begin to apply strict rules of origin to intra-CARICOM imports. The Heads also agreed to establish an investment fund for the Caribbean, with a minimum capital of 50 million dollars. The purpose of this fund was to assist enterprises in the subregion, including public enterprises slated for privatization, to restructure and survive in a more open economy. The fund was to become operational within a year and would be supported by the World Bank and the Inter-American Development Bank (IDB).

In January of 1992, the Heads of Government of the OECS countries met to accelerate negotiations aimed at the establishment of a single market in that economic grouping. Four of the seven countries also sought political integration by establishing a federal government which would be charged with the provision of services such as national security and defence, foreign affairs, justice, the money supply and social security.

Recent developments

In their third inter-sessional meeting, which took place in Kingston, Jamaica in February of 1992, the Heads of Government had to face a complex situation caused by delays in implementation of numerous measures. In effect, the dates agreed upon for implementing the common market regime had been passed over by several countries, especially in relation to import licenses and other administrative barriers to trade. Moreover, it was noted that intra-CARICOM trade had stagnated in 1991. Several countries indicated that remaining barriers to intra-subregional trade ought to be removed by 2 April 1992 at the latest.

In respect of the CET, the Heads noted that it was being applied in eight member countries. The remaining countries Antigua and Barbuda, Montserrat, Saint Kitts and Nevis and Saint Lucia - were urged to carry out their agreements as soon as possible, and to refrain from applying national tariffs, which tended to be lower than the CET. Nonetheless, the Heads of Government recognized the need for continuous adjustment of the CET in response to changing internal and external circumstances.

While some of the main instruments of trade integration suffered delays in implementation, advances were made in other areas. For example, five countries agreed to

allow CARICOM nationals to enter their territories with documents other than a passport. Member countries also agreed on rules that would govern the CARICOM Investment Fund. The initial steps in facilitating capital movements within CARICOM were taken, with the aim of reaching a unified stock market. Nonetheless, to date only limited transactions have taken place among the stock exchanges of Trinidad and Tobago, Jamaica and Barbados. The possibility of an agreement to eliminate double taxation is under study, as is the possibility of establishing a monetary union that would include all members of CARICOM. To advance these two goals, a Council of Central Bank Governors was established in March of 1993.

The Thirteenth Summit of Heads of Government, which took place in Port-of-Spain from 30 June through 2 July 1992, had as its central theme the need to implement the CET and other measures so as to reach a common market in 1994. Once again, the topic of a common currency was also discussed.

Some members of CARICOM have begun to doubt the feasibility of many of the proposed measures. For example, free movement of labour is difficult when several member countries register high rates of unemployment. For this reason, the first liberalization of labour markets is restricted to graduates of the University of the West Indies and professionals who work in communication. Regarding a common currency, it has been said that this would be viable only if it is clearly linked to the United States dollar. Worries have begun to surface in the subregion concerning the possibility that commitments to integration in a small subregion may obstruct a country's integration with the rest of the world. More specifically, some analysts maintain that adoption of the CET may perpetuate the anti-export bias of Caribbean economies. For this reason, the perception of integration is changing gradually away from the concept of a subregional market toward the idea of functional and political cooperation.

In their next inter-sessional meeting, held in Port-of-Spain from 28 to 31 October 1992, the Heads of Government adopted the proposals of the report of the West Indian Commission titled "Time for Action". That report specified the principal measures required to accelerate and deepen the integration process. A CARICOM Bureau was created in order to give greater political backing to the Community and to strengthen the institutional infrastructure. The Bureau consists of the current President of the Heads of Government Conference along with the incoming President and the past President. At this time, the Bureau concerns itself with urgent matters that arise between regular meetings of the Heads of Government, as well as formulating proposals and assuring the implementation of decisions adopted by the Heads of Government Conference.

The Bureau has recommended that the Heads of Government give priority to all issues identified by the West Indian Commission that have not yet been addressed. Among these issues is the proposal for free movement of professionals in the subregion, exports of bananas to the European Union (EU) and export processing for the United States market.

The Heads of Government agreed to cooperate in external affairs, including the establishment of joint diplomatic missions overseas. They also accepted the proposal of the West Indian Commission for the establishment of an Association of Caribbean States (ACS) that would encompass, in addition to the 13 CARICOM countries, all the countries of the Caribbean Basin. The ACS would not replace CARICOM, but would retain it as its core. Membership in ACS is intended to be very broad, including Venezuela, Colombia and the Central American States as well as all the islands of the Caribbean archipelago, including non-independent territories, such as Puerto Rico, the French West Indies, Aruba, the Netherlands Antilles, the United States Virgin Islands and the remaining British dependencies.³ The new Association would promote both economic integration and functional cooperation among all its members.

Concerning the common external tariff, the Heads of Government agreed to reduce protection and open the market to more effective international competition. The agreed-upon CET, which had never been universally applied, was to be reduced, with the exception of agricultural products, to a maximum of 35 per cent in 1993, and to gradually reach a targeted range of 5 per cent to 20 per cent by 1998. The "less developed countries" are allowed to retain numerous zero tariffs, and Belize is allowed to implement the CET with a lag of two years. The CET for agricultural products is more protectionist, with a zero to 40 per cent range of tariffs to be retained at least through the year 1998.

In their Fourteenth Conference, in Nassau, Bahamas from 5 to 8 July 1993, the Heads of Government agreed to establish a common market in January of 1994 and a monetary union at the end of 1995. Nonetheless, there persisted important setbacks in implementation of the CET, in the elimination of non-tariff barriers to intra-subregional trade and in the re-establishment of a system of payments.

In their final declaration of the Conference, the Heads of Government emphasized the usefulness of maintaining a close relationship among the foreign strategies of the countries, the development of a single market, and cooperation in monetary and financial matters. One group of countries took responsibility for implementation of a Common Programme of Foreign Affairs. To begin, this would involve coordination of policies related to accessing external markets with policies related to subregional integration.

In the next inter-sessional meeting, which took place in Port-of-Spain in mid-October 1993, two specific decisions were taken. First, the Heads of Government agreed that foreign investment in the subregion would no longer be subject to double taxation. Secondly, they agreed to establish the Caribbean Investment Fund, with an initial capital of 50 million dollars.

³ See ECLAC, Widening of the Caribbean Community: Issues and Considerations, Port of Spain, Trinidad and Tobago, LC/CAR/G.392/ , 14 June 1993.

The countries are progressing in their efforts to establish a Court of Justice and an Assembly of Parliamentarians for the Caribbean Community. The last-mentioned initiative is in the process of ratification by member countries.

In 1993, the CARICOM Secretariat obtained from the Canadian International Development Agency (CIDA) financial aid amounting to 4.4 million Canadian dollars targeted for strengthening its managerial capacity.

The Fifteenth Conference will be held in Barbados from 4 to 7 July 1994.

Relations with third countries

In August of 1990, the Congress of the United States approved the renewal of the Caribbean Basin Initiative (CBI II), which now remains in effect for an indefinite period. The current CBI is more generous than the 1983 version, insofar as market access of Caribbean producers is concerned. It offers, for example, duty-free entry for products produced with components from the United States and Puerto Rico which, for customs purposes, are regarded as part of local value added. To benefit from this scheme, the goods must have local value added of at least 35 per cent and have undergone substantial local transformation. The President of the United States has the right to alter these rules of origin in specific instances.

Textiles continue to be excluded from the CBI, and sugar quotas were not increased. Moreover, CARICOM countries have made little use of this preferential access to the United States market, for Central America is attracting most of the CBI-related investments.

In order to make greater use of the CBI, CARICOM Heads of Government agreed, in the Saint Kitts and Nevis Summit, to send a delegation to Washington to negotiate jointly a draft agreement with the United States. This agreement was signed on 22 July 1991. It envisions the creation of a Joint United States-CARICOM Council of Trade and Investment.

Even though the CBI has had little impact in CARICOM, member countries continue to express fears of a loss of CBI benefits. These fears grew when Mexico joined the North American Free Trade Agreement (NAFTA). CARICOM leaders fear most of all that investors in export processing industries established in the Caribbean might migrate to Mexico. They are also worried that the United States might demand reciprocity in trade, which would eliminate the "one-way free trade" obtained through the CBI. These concerns were discussed during a meeting effected in Washington on 30 August 1993 between the President of the United States and the Heads of Government of Guyana, Barbados, Trinidad and Tobago, Jamaica and the Bahamas. President Clinton gave to the Trade Representative of his Government the task of studying the impact of NAFTA on the Caribbean economies, in addition to consulting with the Caribbean countries in order to devise new measures to increase trade with the subregion.

In this context, it is useful to remember that the CARICOM countries have a trade agreement with Canada, known as CARIBCAN, that grants them free access to this market for numerous products.

CARICOM countries also benefit from Lomé IV, which grants them free access to the market of the EU for most exports until the year 2000. In the case of important products such as bananas and sugar, the countries are guaranteed preferential access compared to other developing countries that are not signatories to Lomé IV. Nonetheless, some of the countries that export bananas fear that the creation in 1993 of a single European market might have a negative effect on them, for it implies loss of the quota that they receive from the United Kingdom.

In the latter part of 1993, the countries of Central America increased their efforts to obtain improved access to the EU, as they produce bananas at a lower cost than countries of the Caribbean. They utilized GATT as a forum to lobby for changes in the quotas imposed by the EU on imports of bananas. They were partially successful in their efforts, for the EU agreed in March of 1994 to increase the quotas assigned to the countries of Central America.

Venezuela has offered the CARICOM countries free access to its market for five years without demanding reciprocity. An agreement to this effect was signed on 1 July 1991. A Joint Council of Trade and Investment was formed to implement the Agreement by the end of 1992. Since October 1992, Venezuela has participated in CARICOM as an observer. Negotiations have begun with Colombia towards an agreement similar to that signed with Venezuela, but to date this goal has not been attained.

The Ministers of Foreign Affairs of CARICOM and the Central American Common Market met at the end of January 1992 in San Pedro Sula, Honduras, to examine the establishment of a free trade area and the coordination of economic policies. In principle, the free trade area would be established by means of a transitory multilateral treaty of free trade to take effect in the year 1992. The coordination of policies would include joint missions in international trade negotiations. In order to carry out these initiatives, the Ministers agreed to establish a Joint Forum for Consultations and Coordination. The ministers met again at the end of May 1993, in Kingston, Jamaica. There they analyzed the possibility of increasing their functional cooperation and of coordinating their positions regarding negotiations with third countries and with international organizations.

In their Nassau Summit, in July of 1993, the Heads of Government approved the establishment of a Joint CARICOM-Cuba Commission, with the primary responsibility of promoting closer ties in the economic, social, cultural and technological fields. The private sector in a number of CARICOM countries has expressed interest in investing in Cuba's tourist sector. Nonetheless, the initiative has been met with adverse reactions in the United States and in the Central American countries.

On 12-13 October 1993, the CARICOM Heads of Government met with the G-3 Presidents (Mexico, Colombia and Venezuela) in Port-of-Spain, Trinidad and Tobago. On that occasion they subscribed to a Plan of Action intended to increase the economic, political and cultural relations between the two groups of countries. In addition, they emitted another declaration of commercial integration to create a larger economic space.

Finally, it is worthy of note that members of CARICOM participate in the Group of Rio through a rotating representative that falls on Trinidad and Tobago for the year 1994.

