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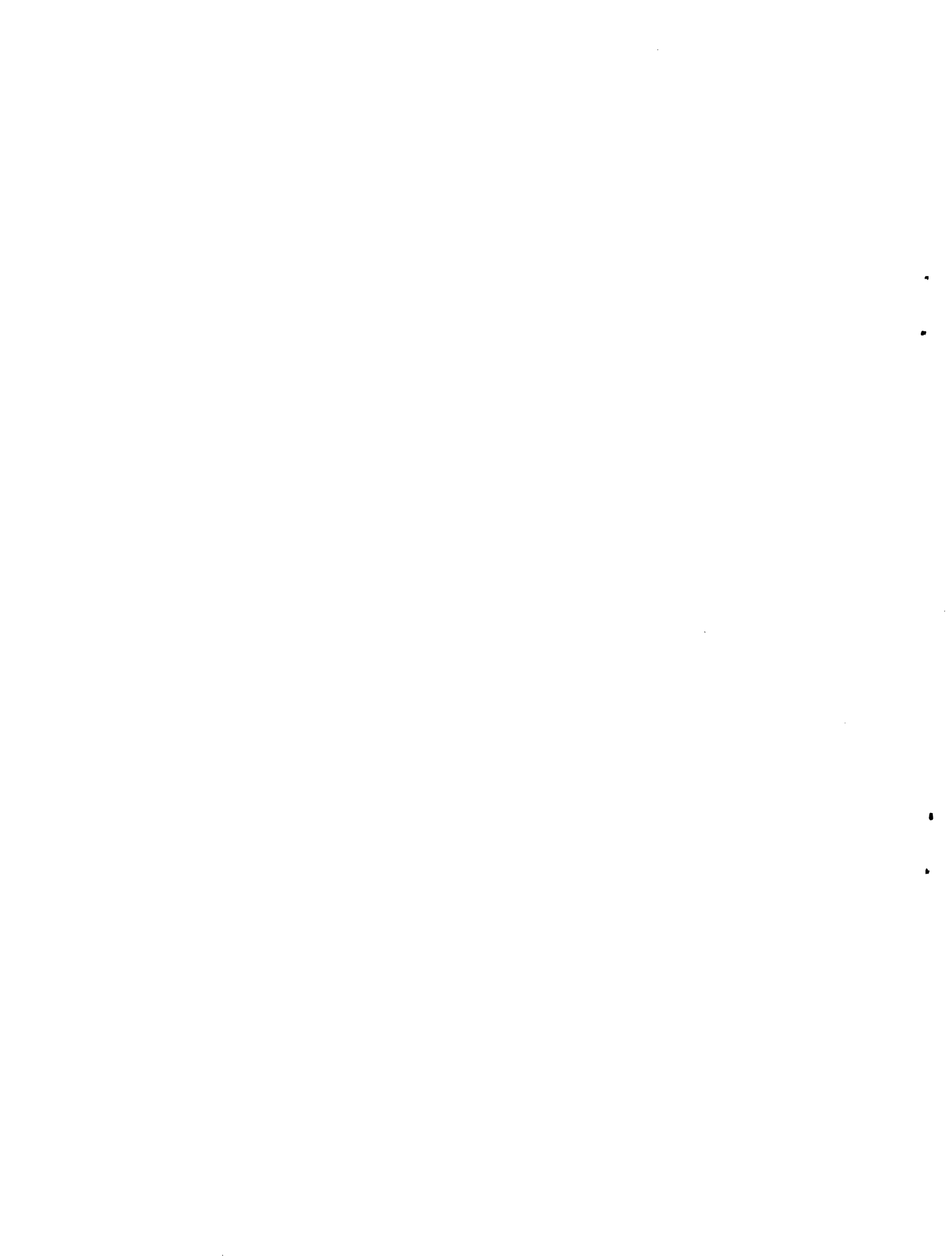
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ECONOMIC COMMISSION FOR LATIN AMERICA
Subregional Headquarters for the Caribbean



INTEGRATION AND CO-OPERATION IN THE CARIBBEAN

1981-1983



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INTRODUCTION

The Caribbean Community (CARICOM), which was established in 1973 by the Treaty of Chaguaramas as successor to the Caribbean Free Trade Association (CARIFTA - created in 1965)^{1/} has both widened and deepened its mechanisms during the 1981-1983 period. At the same time this formal integration scheme has faced growing difficulties in applying its instruments for economic integration in the context of declining economic conditions and social-political factors affecting the entire subregion.

From the outset the Caribbean Community was more than a trading arrangement. Its major objectives were and still are: economic integration, functional co-operation and common services in a number of areas, and co-ordination of foreign policies. These objectives are achieved through an elaborate institutional structure that comprises two integration secretariats: the CARICOM Secretariat servicing the Commonwealth Caribbean Community 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 Governments Authority of these states as well as the East Caribbean Common Market (ECCM).

The CARICOM Secretariat is located in Georgetown, Guyana while the OECS Secretariat has its main headquarters in Castries, Saint Lucia and an Economic Secretariat located in Antigua. The OECS was established on 18 June 1981,^{2/} replacing the former West Indies Associated States (WISA), and creating an umbrella organization encompassing as well, the ECCM and certain other sub-regional organizations and functions, including the East Caribbean Currency Authority (ECCA), the East Caribbean Tourism Association (ECTA), the East Caribbean Civil Aviation Authority (ECCAA), the Supreme Court of the West Indies Associated States, etc.

^{1/} The Treaty of Chaguaramas though signed originally by the then only four independent states of the English-speaking Caribbean (Barbados, Guyana, Jamaica and Trinidad and Tobago) included however, all the former members of CARIFTA (that is, the four plus Antigua and Barbuda, Dominica, Grenada, Montserrat, Saint Christopher/Nevis, Saint Lucia, Saint Vincent and the Grenadines and Belize) plus the Bahamas.

^{2/} Signatories to the OECS Treaty and members as of the end of 1983 are: Antigua and Barbuda, Dominica, Grenada, Montserrat, Saint Christopher/Nevis, Saint Lucia and Saint Vincent and the Grenadines.

The beginning of CARICOM's second decade is marked by a wider organization: it now comprises 13 countries - Bahamas joined in July 1983.^{3/} In 1983 the question of expanding the Community to include non-English-speaking members in some form of association was discussed in respect of the Dominican Republic, Haiti and Suriname.

The deepening process of integration has continued with attempts to strengthen and rationalize the operations of several CARICOM and OCES organizations. Efforts were directed at the West Indies Shipping Corporation (WISCO), the Leeward Islands Air Transport Company (LIAT), the University of the West Indies (UWI), the Caribbean Food Corporation (CFC) and the recently created Caribbean Agriculture Trading Company (CATC). At the OECS level, the Eastern Caribbean Central Bank was formed to replace the more restricted Eastern Caribbean Currency Authority (ECCA).

During the period 1981-1983, the Heads of Commonwealth Caribbean Governments met for the first time in seven years (Ocho Rios, Jamaica, 15-18 November 1982) and at the third subregional summit under the Chaguaramas Treaty and shortly after held their fourth CARICOM Heads of Government Conference (Trinidad, 4-8 July 1983 to mark the tenth anniversary of the Treaty and to sign a Regional Energy Action Plan (REAP), and an Intergovernmental Agreement on Co-operation in Air Transport among other things. It was also formally agreed that the Heads of Government Conference should take place annually in order to avoid the hiatus experienced between the second and third conferences. The next meeting is planned to take place in July 1984 in the Bahamas.

Other mechanisms of co-operation and integration have also been developed. One private sector example is the Caribbean Association of Industry and Commerce (CAIC), which has been restructured, partly in response to the United States sponsored Caribbean Basin Initiative (CBI).

^{3/} The Bahamas, independent since 1973 was associated with the Community from the outset but only now opted for full membership, still not becoming party to the Common Market.

The course of events in the future remains unclear. On a parallel course to the widening and deepening of the integration process the CARICOM subregion has experienced a growing complexity of the issues as newly independent countries assert their individual sovereignty. Political developments are having an increasingly divisive effect in the subregion. Questions of political and economic security in the context of the current international environment are being debated in the subregion and the outcome will set the tone of CARICOM's evolution during its second decade.

1. THE EVOLUTION OF THE COMMON MARKET

The most striking aspect of the CARICOM subregion is the decisive influence that external factors have as determinants of economic and socio-political behaviour. The extreme economic openness which is exemplified by the very high ratio of exports and imports to the Gross Domestic Product (as is shown in Table 1), is associated with the very small size of most of these economies and their continued external dependency on metropolitan centres.

The impact of the world economic recession has been felt strongly in affecting the region's foreign exchange earnings, coupled with rapid growth of imports, both in terms of volume and value. This has had severe consequences on the Common Market countries. The decline in tourist trade, reduction in oil revenues, the continued fall in the prices of the major export commodities of the region and increasing protectionism abroad and other factors such as inflationary pressures and rigidities in the labour market "have presented the Community with a serious challenge of survival. These difficulties have aggravated already existing problems of low productivity in some sectors, and the absence of new investment in others."^{4/}

The liberalization of intraregional trade and the adoption of a common external tariff for third countries has only partially been achieved. In addition, problems have emerged in the application of the rules of origin; such problems are not uncommon to other integration schemes in Latin America.

^{4/} Report of the Secretary-General of the Caribbean Community, 1982.

Table 1.
Ratios of Imports and Exports to GDP
(Percentage)

	1970		1980		1981		1982 ^{a/}	
	Exports GDP	Imports GDP	Exports GDP	Imports GDP	Exports GDP	Imports GDP	Exports GDP	Imports GDP
OECS ^{b/}	22.8	80.1	37.0	118.8	36.8	107.2	30.9	94.2
CARICOM ^{c/}	37.1	52.3	72.6	71.1	60.7	67.9	34.9	50.0

a/ Preliminary estimates.

b/ Comprising seven of the LDC members of CARICOM.

c/ Comprising the twelve CARICOM countries of the Common Market i.e. excluding the Bahamas.

Source: ECLA/CDCC Statistical Data Bank and national sources.

A. Growth and Structure of CARICOM Trade

Despite its deficiencies intra-subregional trade grew substantially during the first years of the integration movement under the CARIFTA agreement. Intra-subregional trade peaked in 1973 at 12 percent of total trade but declined later during the world oil crisis due to the growing weight of energy costs to the oil-importing member countries on the one hand, and the increased importance of oil exports from Trinidad and Tobago to third countries in the subregion's total exports. In the more recent period (1980-1982) intra-CARICOM exports have almost regained its share of total exports. Table 2 shows the evolution during this period and how important intra-subregional exports are for the smaller LDCs. Almost 40 percent of the total OECS exports is directed to the Caribbean Common Market.

Figures on the composition of subregional trade for the last three years (1981-1983) are unavailable but other indicators show a decrease in the importance of fuels which were almost 65 percent of total exports in 1980 (see Table 3). The longer term evolution of the composition of both intra-subregional and total exports (1970-1980) is shown also for total OECS and

for CARICOM as a whole in Table 3. Tables 4 and 5 show the composition (by SITC Section) of total and intra-subregional exports in 1980. The situation has not varied greatly from that noted by ECLA in 1981.^{5/}

Table 2
CARICOM: Relative Importance of Intra-Subregional Exports
(Percentage of Total Imports)

	1970	1980	1981 ^{a/}	1982 ^{a/}
Antigua and Barbuda	4.4	39.0	38.3	38.1
Dominica	8.5	50.5	37.5	38.0
Grenada	5.0	15.5	28.4	41.9
Montserrat	21.7	25.0	23.1	27.3
Saint Christopher/Nevis	7.1	22.9	16.5	16.5
Saint Lucia	27.3	37.2	36.3	36.6
Saint Vincent and the Grenadines	28.6	70.7	81.6	63.2
<u>SUB-TOTAL: OECS</u>	10.3	37.2	39.6	38.8
Barbados	15.4	21.1	24.3	21.4
Belize	6.4	9.5	5.5	11.3
Guyana	9.6	15.6	21.6	21.8
Jamaica	3.7	7.2	8.7	13.1
Trinidad and Tobago	9.3	7.0	7.1	7.8
<u>TOTAL CARICOM^{b/}</u>	7.8	8.8	9.8	11.3

a/ Preliminary estimates.

b/ Excluding the Bahamas.

Source: ECLA/CDCC.

^{5/} See Regional Integration and Co-operation in the 1980s (E/CEPAL/G.1151, 30 April 1981, Tables 20 and 21).

Table 3

CARICOM: Pattern of Total and Intra-Subregional Exports
(Percentage)

(SITC Classification)	TOTAL GOODS		RAW MATERIALS		MANUFACTURES		PETROLEUM (Mineral Fuels)
	Value (US\$'000)	%	Food, Bever- ages and Tobacco (0+1)	Crude Mate- rials (2+4)	Chemicals (5)	All Other Manu- facture (6+7+8)	
<u>1970</u>							
OECS ^{a/}							
- intra-subregional	4,871.0	100.0	18.8	45.6	2.0	28.8	1.1
- total	37,897.0	100.0	51.5	6.3	1.9	12.0	27.5
CARICOM							
- intra-subregional	81,880.0	100.0	24.8	7.1	13.3	34.2	34.9
- total	1,055,504.0	100.0	22.2	29.0	4.6	6.3	36.2
<u>1975</u>							
OECS ^{a/}							
- intra-subregional	15,933.2	100.0	22.0	22.4	4.5	36.1	14.6
- total	96,836.0	100.0	53.1	4.3	1.2	15.9	24.9
CARICOM							
- intra-subregional	276,561.2	100.0	26.7	2.4	12.3	26.5	31.8
- total	3,243,271.0	100.0	22.5	20.5	2.6	4.6	49.6
<u>1980</u>							
OECS ^{a/}							
- intra-subregional	51,003.9	100.0	30.9	10.1	7.6	49.1	0.4
- total	137,123.0	100.0	47.7	3.6	4.9	43.2	0.2
CARICOM							
- intra-subregional	524,028.3	100.0	22.4	2.6	9.6	24.9	40.1
- total	5,986,476.0	100.0	10.6	15.6	2.7	6.0	64.8

a/ Excluding Montserrat, for which figures are not available.

Source: ECLA/CDCC.

The importance of agricultural exports and raw materials, excluding fuels, has been consistently decreasing for CARICOM countries as a whole. From almost 51 percent of total exports in 1970 these products represented only 26 percent of total exports in 1980. In the OECS subregion, exports of this group of products have remained the main source of foreign exchange earnings - although declining from 58 percent of total exports in 1970 to 51 percent in 1980. For CARICOM as a whole, mineral fuels account for the major share of total exports but this change is attributable mainly to one country, Trinidad and Tobago. Raw materials excluding petroleum, while dominant, has lost some of its pre-eminence.

With respect to manufactured goods exports, the share as a percentage of total exports has declined since 1970, both in intra-subregional trade and at the level of total exports also due to the extraordinary weight of oil trade. However, with respect to OECS trade the situation is exactly the reverse. Trade in manufactures has become extremely important for these LDCs increasing from around 15 percent of total exports during 1970-1975 to more than 48 percent during 1980. As of 1980 the share of manufactured goods in total exports to CARICOM Countries by the LDCs has reached 57 percent.

In general, manufactured goods exports are being led increasingly by products of the chemical, textile and garments, assembly-type manufactures and electrical machinery industries which are mostly traded intra-subregionally. Tables 4 and 5 show the composition (by SITC Section) of total and intra-subregional exports in 1980.

Table 4

CARICOM: Composition of Intra-subregional Exports 1980
(By SITC Sections)

	Food Bever- ages, Tobac- co	Crude Mate- rials	Min- eral Oils and Fuels	Animal and Vege- table Oils	Chem- icals	Basic Manu- fac- tures	Trans- port Equip- ment	Miscel- laneous Manu- factures	Other Goods n.e.s.	TOTAL '000 US	%
	0+1	2	3	4	5	6	7	8	9		
ANTIGUA	10.5	0.9	0.3	-	7.0	19.6	11.7	48.1	1.8	10,777.0	100.0
BARBADOS	18.1	0.8	1.8	0.3	18.2	18.4	17.3	24.7	0.4	48,011.7	100.0
BELIZE	65.9	30.1	-	-	-	0.1	2.4	0.6	0.9	10,417.6	100.0
DOMINICA	14.7	0.9	-	16.9	50.9	4.1	11.2	1.2	0.0	4,917.0	100.0
GRENADA	33.2	0.1	0.9	-	0.9	9.3	6.0	49.4	0.2	2,678.9	100.0
GUYANA	70.1	4.7	0.1	-	8.7	4.0	6.4	5.4	0.6	60,930.0	100.0
JAMAICA	19.0	1.1	4.9	0.1	19.6	22.3	10.0	22.9	0.01	69,193.0	100.0
SAINT CHRISTOPHER/ NEVIS	21.2	3.6	0.02	-	0.9	0.9	32.0	41.4	0.01	4,611.9	100.0
SAINT LUCIA	30.0	0.2	0.01	19.6	3.1	18.6	8.3	20.2	0.01	17,101.9	100.0
SAINT VINCENT AND THE GRENADINES	66.9	2.3	1.1	3.5	0.1	3.0	2.6	20.5	0.01	10,602.7	100.0
TRINIDAD AND TOBAGO	10.6	0.1	72.3	0.2	6.7	5.2	2.0	2.8	0.1	284,969.8	100.0

a/ Preliminary figures.

Source: ECLA/CDCC and CARICOM (A Digest of Trade Statistics, 1970-1980).

Table 5

CARICOM: Composition of Total Exports
(By SITC Section)

	Food Bever- ages, Tobac- co	Crude Mate- rials	Min- eral Oils and Fuels	Animal and Vege- table Oils	Chemi- cals	Basic Manu- fac- tures	Trans- port Equip- ment	Miscel- laneous Manu- factures	Other Goods n.e.s.	TOTAL '000 US	%
	0+1	2	3	4	5	6	7	8	9		
ANTIGUA	7.1	2.3	0.3	-	4.0	11.7	20.1	51.8	2.7	27,700	100.0
BARBADOS	42.9	0.5	16.1	0.1	8.9	7.7	33.3	23.6	1.1	227,693	100.0
BELIZE	64.9	2.6	2.1	0.2	1.6	1.1	9.0	18.2	0.3	109,950	100.0
DOMINICA	39.9	0.3	-	4.0	51.0	1.0	4.5	0.6	0.01	9,742	100.0
GRENADA	90.1	0.02	0.2	-	0.2	1.3	1.1	7.2	-	17,387	100.0
GUYANA	47.9	46.2	0.02	-	1.6	0.9	1.7	1.2	0.5	389,300	100.0
JAMAICA	1.3	76.7	2.0	0.01	1.6	1.5	2.6	2.1	0.1	967,431	100.0
MONTSERRAT	7.2	7.8	0.7	0.03	0.3	13.0	20.4	41.3	9.5	1,185	100.0
SAINT CHRISTOPHER/ NEVIS	72.8	0.9	0.01	-	0.3	1.3	10.6	14.0	0.03	20,100	100.0
SAINT LUCIA	35.6	0.6	0.02	6.4	1.1	17.5	23.5	15.3	0.01	45,989	100.0
SAINT VINCENT AND THE GRENADINES	84.7	1.0	0.5	1.5	0.3	1.4	1.6	8.9	0.01	15,020	100.0
TRINIDAD AND TOBAGO	2.0	0.1	93.7	0.01	2.7	0.5	0.5	0.4	0.1	4,076,984	100.0

Source: CARICOM - A Digest of Trade Statistics, 1970-1980.

The relative stagnation in exports of the Caribbean Common Market is associated with the unfavourable economic environment of the last few years and the resultant balance-of-payments and other economic problems. Intra-area trade is also affected by institutional problems relating to the rules of origin, the difficulties experienced by the Caribbean Multilateral Clearing Facility, and the introduction of trade licensing to CARICOM Trade by Jamaica, Guyana, Barbados and Trinidad and Tobago. Some of these latter are discussed below.

Table 6

Caribbean Subregion: Short-term Evolution of Trade
(Preliminary estimates)

	Annual Growth Rates					
	Exports			Imports		
	1980/81	1981/82	1982/83 ^E	1980/81	1981/82	1982/83
OECS						
(seven countries)	9.7	-8.9	-15.9	18.0	-4.9	-6.4
CARICOM						
(twelve countries)	-7.3	-18.3	-20.9	6.0	4.4	-10.3
CDCC ^{a/}						
(eighteen countries)	-2.4	-11.2	-7.3	7.6	0.01	-1.4

E = 1983 data estimated

^{a/} The twelve members of the CARICOM Common Market plus the Bahamas, Cuba, Dominican Republic, Haiti, Netherlands Antilles and Suriname.

Source: ECLA/CDCC.

B. The Organization of Eastern Caribbean States (OECS)

The formation of the OECS may be viewed as a further step in the intensification of the integration process of the former WISA and ECCM countries.

The main purposes of the OECS are in summary:

- (i) To promote co-operation among member states at the regional and international levels;
- (ii) To promote unity and solidarity among member states;
- (iii) To seek to achieve harmonization of foreign policy and adopt common positions on international issues;
- (iv) To promote economic integration among member states through the ECCM.

In pursuit of its functions the following principal institutions were established by the OECS Treaty:

- (i) The Authority (consisting of Heads of Governments) constitutes the supreme policy-making body;
- (ii) The Foreign Affairs Committee;
- (iii) The Defence and Security Committee;
- (iv) The Economic Affairs Committee;
- (v) The Central Secretariat.

The Central Secretariat, as indicated in the introduction, is divided into two branches: the Economic Secretariat responsible mainly for promotion of economic integration through the ECCM Agreement and located in Antigua and the Central Secretariat in Saint Lucia responsible for co-ordinating all other functions which include external representation administering the wide range of functional co-operation and mechanisms for common services.

The Organization has been gradually becoming fully operational. In July 1983 the Eastern Caribbean Currency Authority was upgraded to a Central Bank - an almost unique experiment in which seven sovereign states have agreed to have a single Central Bank responsible for an autonomous

and common currency (the Eastern Caribbean Dollar). Similar institutions, such as the French West Africa Bank depend on other monetary systems for protection, while the new EC Central Bank seeks to have more control over monetary policy without losing the benefits of a single common currency. The OECS Central Bank will have the authority to regulate credit policies, fix interest rates and establish the reserve requirements for commercial banks in member countries.

In respect of tariff and customs policy, the ECCM is in principle fully compatible with the CARICOM Common Market, but in practice full application in respect of the common tariff, has been delayed in some of the LDCs who have been granted a longer phasing-in period. Even though a deadline has been set for the full operation of a Customs Union (1 April 1984), it is to be noted that the provisions enshrined in the ECCM Agreement of 1968 - far wider than a mere customs union since they included the rationalization of production and allocation of industries within the area - had not been fully implemented 13 years later when the OECS treaty was signed.

Thus, at the present time, the achievements of the Eastern Caribbean integration process are largely limited and remains restricted due to the slow implementation of provisions approved much earlier although there has been some expansion in the areas of functional co-operation and common services.

It is explicit in the OECS framework that common services should emerge in a number of areas where individual undertakings by very small nation-States are not viable or feasible. Some are already in existence but there is a need for consolidation.

C. The Application of the CARICOM Instruments

Problems in the application of the Common Market instruments continually recur and have been aggravated in the more recent period by economic and political circumstances.

Rules of Origin

During the period under review a new system of Common Market rules of

origin came into force (as of 1 June 1981), with the aim of assisting in promoting the utilization of indigenous raw materials in industrial processes. Some countries claim that it is possible, however, for Common Market origin to be given to extraregional goods which have only token value added in the CARICOM subregion (namely by relabelling, sorting and packing).

The existing criteria for Common Market origin are basically that a product be wholly produced within the Common Market or that it undergoes a substantial transformation when extra-subregional materials are used. Substantial transformation in this context is defined by a stipulated minimum level of local or subregional value added to imported items of the Basic Materials List through the performance of certain specified manufacturing processes, or when these inputs are used to process local raw materials, or to manufacture certain materials which are specified.

Another means of satisfying the substantial transformation criteria is by processes that result in a finished product which falls in a heading of CCCN (Customs Co-operation Council Nomenclature) different from that which applies to any extraregional materials used in them. This is called the "BTN jump".

An alternative to the "BTN jump" is the achievement of a certain level of local or subregional value added without the benefit of the Basic Materials List, in the manufacture of machinery and mechanical appliances, electrical, transport, optical, photographic and other precision equipment and other manufactures under chapters 84 and 98 of the Tariff. The specific percentages vary according to the item, unlike the previous rules of origin that were in effect from 1973 to 1981 and which specified fixed ratios for the LDCs and for the MDCs.

Application of these rules has been hampered by the invocation of sanctions in respect of those products with which member countries have been experiencing difficulties. In September 1983 a Regional Surveillance Committee (RSC) was established to monitor and advise on adherence to the requirements of the rules of origin given the allegations of breaches to the rules, and the application of import licenses that affect trade flows. These allegations have been made mainly in the garment industry which is

of major importance in CARICOM's industrial structure. The RSC is not yet functional, but the provision is that it will be activated on request from parties expressing concern in a particular claim to Common Market origin treatment. Its functions and powers as a certification and verification body and/or for settling disputes are in process of being defined.

Common External Tariff (CET) and Liberalization of Trade

The CARICOM Common External Tariff, which was brought into operation by the four MDCs, prior to the period covered by this review, is still to be extended to embrace the OECS countries. Discussions have been continuing between the Secretariats of CARICOM and the OECS aimed at the further harmonization of external tariffs. Article 31 of the Annex to the Treaty of Chaguaramas includes a strategy for the harmonization of the ECCM Common External Tariff with the CARICOM Common External Tariff but there have been delays. The final phasing period should have ended by 1 August 1981 - with the exception of Montserrat and Belize for which this final deadline is 1 August 1985. As a result, agreement has been reached that there should be an in-depth review of the role and working of the CET in the framework of the Common Market's trade, investment promotion and protection policies, and reviewing the treatment of inputs under the Conditional List which allows for duty exemptions and tariff reductions.

The problems of CARICOM tariff and trade have been further complicated by various currency devaluations - Guyana in 1982 and 1983, Jamaica three times.^{6/} These devaluations have stimulated comments from some intra-CARICOM traders that their competitiveness had been affected and that the exchange rate changes have resulted in reductions in area trade.

^{6/} Guyana devalued its currency by 18 percent in 1982 and by a further 20 percent in 1983 and Jamaica introduced a two-tier system in February 1983 that under pressure from its CARICOM partners led to the establishment of a special CARICOM rate in March. The multiple exchange rates were discontinued with a 43 percent devaluation in November 1983, with new parity of J\$3.125 per US Dollar. In January 1984 the Jamaica Central Bank modified the median rate to J\$3.25 per US Dollar. A new procedure was introduced which allows for a 15 percent variation in the buying/selling rate and stipulates a review of the median rate every two weeks to maintain competitiveness of the official system against the black market.

The question of protective barriers affecting trade inside the Common Market was also raised in view of the existence of various import licensing requirements in some countries including Jamaica and Guyana and the stiffening of foreign exchange controls. The actions of Trinidad and Tobago, which in October recalled all outstanding import licenses and introduced a new foreign currency application procedure further compounded the problems.

Caribbean Multilateral Clearing Facility (CMCF)

This instrument established in 1977 to facilitate smoother payments and clearing arrangements for trade, was suspended on 1 April 1983 due to the depletion of its US\$100 million fund. The underlying persistent imbalance between debtors and creditors, given the agreed procedures for debt offsetting operations, resulted in one of the participants incurring a substantial negative balance, with one other participant cumulating substantial positive balance. In absence of repayment the facility became unworkable under the terms of its establishment, which did not contemplate a loan capability.

The Fourth CARICOM Conference of Heads of Government, July 1983, agreed to a number of measures for the reactivation of the CMCF under revised conditions which include debtor limits and quarterly settlements. Also consideration is being given to:

- (i) Enlarging the facility;
- (ii) Constituting it as a legal entity under the CARICOM Ministers of Finance;
- (iii) The possibility of opening another "window" for medium-term credit; and
- (iv) The establishment of a Stabilization Fund.

II. OTHER AREAS OF CO-OPERATION

As necessary complements to the main Common Market instruments, CARICOM has had in force functional measures for co-operation in the several economic sectors. Progress in these has been slow and, as in other integration schemes, when attempts are made to rationalize production and service sectors at a multinational level, new problems appear deriving from apparent conflicts with perceived national priorities.

A. Specific Areas of Co-operation

Agricultural integration

CARICOM has had in force, since its inception, special marketing arrangements for agricultural products. Three protocols to the Chaguaramas Treaty cover the marketing of sugar, oils and fats, and 22 selected agricultural products respectively. These protocols have had limited effectiveness because only a relatively small volume of intra-CARICOM trade in these commodities fall within the purview of these protocols.

Essentially the arrangements, in respect of sugar, allocated markets in importing-member-countries to countries with surplus sugar production within the Common Market. Declining sugar production, among other factors, has rendered this arrangement ineffective.

The Conference on Oils and Fats was designed to regulate the Common Market trade in subregionally produced oils and fats, and to ensure the use of regional raw materials in manufactured derivatives given preferential treatment within the Common Market. Coconut oil is the major raw material traded under this arrangement. The Conference determines the prices at which copra, crude and refined coconut oil will be traded during specified periods and regulates export/import allocations between surplus and deficit states.

The structure of demand for coconut products - green fruit, oil and copra price differentials with alternative products such as soybean oil, lard etc.; diseases and natural disasters affecting plantations; and technical requirements of the industries have impeded the Oils and Fats arrangements from successfully stimulating intra-area trade and production. The share of common market trade as a percentage of total trade in Oils and Fats continues to decline and the amount traded now accounts for approximately 7 percent of the total edible oil deficit of the subregion.

The Agricultural Marketing Protocol (AMP) was intended to ensure that surpluses of 22 designated primary agricultural products in high demand would be taken up by non-producing and deficit countries. More recently the Guaranteed Market Scheme (GMS) was introduced as an ad-

junct to the AMP, the objective being to guarantee markets in the MDCs for specified quantities of selected AMP commodities from the LDCs.

Recent actions have been directed towards increasing the production capability of the region by mobilizing resources to produce basic food commodities wherever there is potential. These activities are being carried out within the framework of a Regional Food and Nutrition Strategy (RFNS), which is designed to enhance regional food security. The Caribbean Food Corporation (CFC) was established as an executing agency to facilitate the implementation of the RFNS through equity and joint-venture partnerships in projects with both the public and private sectors by initiating new projects or expanding existing operations.

Recognizing that inadequate transportation services have severely constrained intraregional trade in agricultural products, the Caribbean Agricultural Trading Company (CATCO) was established during 1982 as a joint venture between the regional public and private sectors to operate as a subsidiary of the CFC.

Further commitment to co-operation in agriculture was indicated when the Fourth Conference of the Commonwealth Caribbean Heads of Government agreed to the removal of all existing barriers to intra-area trade in primary agricultural products, including livestock. New arrangements governing agricultural trade are to be introduced but until that is done the AMP mechanisms would remain in effect.

The Fourth Heads of Government Conference^{7/} also directed the CARICOM Standing Committee of Ministers Responsible for Agriculture and the Common Market Council to devise strategies for the formulation of a common protective policy for agricultural products, taking into account the need to establish protective measures for the LDCs which are highly dependent on their agricultural sectors. The objectives of the common protective policy are to protect and stimulate subregional food production and to facilitate intra-subregional trade.

The decision to remove all barriers to intra-area trade in primary agricultural products and livestock implies that the CARICOM States are now prepared to create a single regional market for these commodities. The in-

^{7/} "Communique of the Fourth Summit" CARICOM Perspective, No. 20, July-August 1983, p.13.

sufficiency of subregional production, however, was recognized when the Heads of Government agreed that member states would secure food supplies from national sources in the first instance and then from subregional and international sources. The success of the Common Protective Policy will depend largely on the effectiveness of tariffs or quantitative restrictions against third countries in stimulating local production and deflecting consumption towards local foodstuffs which, over time, have been substituted by imported goods.

An institutional framework for working towards more effective integration of the agricultural sector has therefore been outlined. Implementation of these proposals have now to be effected.

Industrial programming

The industrial production and export incentives as provided in the CARICOM scheme for the harmonization of fiscal incentives to industry which was set up in 1973, is under review. At the same time the process of industrial programming is being advanced by the recommendation and provisional distribution of 16 potentially feasible industrial projects. This supplements 31 industries allocated among the ECCM member countries. Seven of these latter projects have already come on stream.

Additionally, an industrial programming methodology including criteria for distribution of projects, approval of programming, and implementation of an industrial strategy through an appropriate institutional framework, has been adopted subject to concurrence by all members. Agreement was also reached on the timing and nature of private sector involvement, which could include a private sector development bank supported by USAID under the Caribbean Basin Initiative (CBI).

Energy Plan

In July 1983 the CARICOM Heads of Government adopted a Regional Energy Action Plan (REAP) with the long term objective of providing a more co-ordinated and rational development of energy resources. One intermediate objective is to alleviate, within the shortest possible time, the adverse impact of energy prices on Caribbean economies.

The Plan covers such issues as the transportation of petroleum products, guaranteed supplies and markets for such products, energy demand management and conservation, the development of new and renewable sources of energy, and the establishment of a supply mechanism. Underlying this supply mechanism is the principle that there should be rationalization of refining capacity within the region by March 1985.

It was also agreed that Trinidad and Tobago should become the supplier of first resort for all petroleum products to CARICOM member States not having refining capacity, and for deficit products for those States possessing refining capacity. The Government of Trinidad and Tobago also agreed to continue its CARICOM Oil Facility, which has been operating since 1979. A revision of the terms and conditions is to be undertaken.^{8/}

Transportation

In July 1983 an Intergovernmental Agreement on Co-operation in Air Transportation was signed. This agreement provides, inter alia, for one Member State to designate an airline owned by another as its national carrier, and the establishment of a Civil Aviation Consultative Committee. This Committee would provide a forum for consultation on bilateral air services treaties, with particular reference to freedom of flight rights, air fares and rates, capacity control, multiple designation and intra-Caribbean traffic.

The rationalization of air passenger and freight transportation is seen as a mechanism for promoting the integration process. In addition, the enlargement of facilities for air freight is deemed an urgent requirement to increase intraregional trade.

^{8/} In the present system the base period for determining incremental costs on petroleum prices is 1 January 1979; the loans are for 15 years including a 3-year moratorium on both principal and interest payments, with an interest rate of 3 percent in respect of the MDCs and 2 percent for the LDCs. In 1980 requests for funding under the Facility totalled US\$101.3 million of which more than US\$57 million were disbursed. In 1981 more than US\$63 million were requested and around US\$9 million were disbursed. Data for disbursements in 1982 and 1983 are not available.

In respect of maritime transport, CARICOM has declared its intention to institute measures to rationalize activities in the shipping industry, while safeguarding the position of the West Indies Shipping Corporation (WISCO), the official intra-subregional carrier. For this purpose a high-level Committee has been established. It is to formulate proposals for rationalizing operations of the subregional and national shipping lines, including areas of functional co-operation between them, in order to meet the demands of trade in agricultural and industrial products more efficiently.

B. Consultation and Co-ordination

Consultation to arrive at common positions and co-ordinated action in respect of negotiations in international fora and with third countries, has been an ongoing process in CARICOM. Reaffirmation of this principle was made at the Third CARICOM Heads of Government Conference, Jamaica, November 1982, in the declaration that they would "aim at the fullest possible co-ordination of their foreign policies and should seek to adopt as far as possible common positions on major international issues".^{9/}

In the area of external trade relations, CARICOM member States have been considering for some time the acceptance or rejection of the different Codes which have emanated from the Tokyo Round of the GATT Multilateral Trade Negotiations.

Another area for common positions has been the re-negotiation of the second ACP-EEC Lomé Convention. This has been an area where CARICOM has acted in a co-ordinated manner in the past and in fact before CARICOM superseded CARIFTA member countries negotiating as a subgroup, were instrumental in forming the ACP group. On this occasion of negotiating the successor agreement to Lomé II, CARICOM has incorporated other Caribbean countries within the framework of a wider Caribbean Group to participate in the ACP. One of the fundamental positions emerging from the discussions is that solidarity must be a mechanism for negotiations.

9/ Ocho Rios Declaration, 18 November 1982.

This principle of solidarity was reiterated at the Fourth CARICOM Heads of Government Conference which "deplored the exclusionary provisions which currently exist in some regional treaties and arrangements. It called for their early removal so that the principle of universality of membership would be upheld and that all States in the Region which desire to adhere to these treaties and arrangements might be able to do so."^{10/}

A set of guidelines was approved early in 1983 setting out the fundamental principles to govern investments treaties between CARICOM Member States and Third Countries. These guidelines were particularly relevant in the context of the United States sponsored Caribbean Basin Initiative (CBI). With respect to the CBI the Heads of Government expressed their conviction that "participation in the benefits under the CBI should be open to all CARICOM States. It was agreed that Member States in their bilateral discussions with the US Administration on trade aspects of the CBI Bill should press for the simultaneous designation of all Member States of CARICOM as beneficiaries so as to preserve the integrity of the regional Common Market arrangements."^{11/}

Co-ordination has also been exercised in negotiations with multilateral financial institutions, in particular the International Monetary Fund where two issues are of much concern to CARICOM states: conditionality and additionality. In the first they expect to obtain - in accordance with the recommendations of the Group of Twenty Four in 1982 - a "review of the mechanisms and format of conditionality and the nature and content of adjustment prescriptions in small economies in general, and in island and other States of CARICOM in particular."^{12/} Regarding the second issue, there has been the view that the mechanism set for the mobilization of aid under the CGCED "had not provided over the years any great measure of additionality to the traditional flow of funds on concessionary terms;" and that the Chairman of the Ad Hoc Advisory Committee of the Caribbean Group should undertake a consultation process prior to the Meeting of the Group "so that the issues of primary concern to the Region could be identified and placed in the Agenda."^{13/}

^{10/} "Communiqué of the Fourth Summit." CARICOM Perspective, No.20, July/August 1983, p.10.

^{11/} Ibid. p.12.

^{12/} Ibid. p.11.

^{13/} Ibid. p.12.

III. PROSPECTS FOR FUTURE CO-OPERATION

In the economic aspects of integration, the period under review (1981-1983) shows little change in the structural and institutional aspects that hamper closer relations within the subregion. What is more, the current international economic and political environment has served to emphasize these deficiencies. In the words of the Communiqué of the Fourth CARICOM Heads of Government Conference, "small States remained subject to stresses and pressures directly and indirectly, of a military, political and economic nature."^{14/}

Events in the fourth quarter of 1983 have made those stresses and pressures more severe and make the words of the Ocho Rios Declaration of November 1982 appear in the nature of a prediction. Then, concern was expressed about "the use of force as a means of settling disputes and the assertion of spheres of interest and the hazards to which in consequence small States are increasingly exposed;" and "the fact that external strategic perceptions of the Region can present both special opportunities and difficult problems."^{15/}

A. Some factors affecting co-operation in the subregion

Differences in the development paths chosen by the several countries of the subregion reflect heterogeneity in the social, economic and political thinking as well as special national interests and concerns. This heterogeneity inevitably carries with it some divisive elements generated by the pull of both internal and external forces. To some extent and not unexpectedly conflicts, rivalries and tensions have surfaced in many aspects of the integration process; and even where agreement has been reached on interim arrangements at the negotiating table, the more permanent solutions have been elusive. It is therefore of some importance to note that one of the main findings

^{14/} Ibid. p.10.

^{15/} Ocho Rios Declaration, 18 November 1982.

of a Group of Caribbean Experts was that "CARICOM has moved along in spite of ideological differences. The ideological differences between the countries have not ... been so wide as to preclude the pursuit of meaningful regional integration so long as primacy is given by all Member States to their CARICOM over non-CARICOM relationships."^{16/}

The problems of stagnation in intraregional trade, economic deterioration, and lack of dynamism, that were perceived in 1981,^{17/} are still present. In addition the question of convergence with other integration groups is still to be given the full attention it deserves.

Against this background the co-ordination achieved for the ACP negotiations ranks as one of CARICOM's achievements; and the Fourth Heads of Government Meeting noted with satisfaction the growing strength of non-alignment in the subregion, which "provided especially for small States, an alternative to bloc politics, spheres of influence and military alliance."^{18/}

B. The apparently contradictory pull of widening versus deepening forces in the process

Clearly there is a perceived need to deepen the integration process, but urgent short-term national conditions seem to distract attention from the long-term goals and objectives of the integration efforts. In the present international environment, which demand that the countries implement national adjustment measures to bolster their economies, collective action is given second priority.

The Group of Caribbean Experts referred to above ruled out "short-cut" solutions to CARICOM difficulties through the negotiation of "special relationships with the economies of neighbouring - or even distant - larger and economically more powerful countries."^{19/} Considering such an approach as a

^{16/} "The Caribbean Community in the 1980s," Report by a group of Caribbean Experts, to the CARICOM Council of Ministers, 11 January 1981.

^{17/} E/CEPAL/G.115, op.cit. pp.56-57.

^{18/} "Communiqué of the Fourth Summit," CARICOM Perspective, No. 20 July/August 1983, p.10.

^{19/} "The Caribbean Community in the 1980s," op.cit. p.5.

"non-solution," they cautioned against secessionist tendencies in multi-island States... (in an) already highly fragmented and balkanised Caribbean region.^{20/}

On the question of widening the Community these experts concluded that "widening of the Community to include all islands of the Caribbean Sea and Suriname is a laudable aim and should be kept in view as the eventual objective to which efforts will be directed. However, in practical terms, it will take a considerable period to overcome the problems... of difference in language, degree of political autonomy, levels of economic development, systems of public administration and law, and the manner of organization of the national economic systems."^{21/} The CARICOM Heads of Government in 1982 and 1983 considered this issue, specifically with respect to Haiti, Suriname and the Dominican Republic and, although certain formal arrangements were discussed, no final decision was taken.

While it is generally accepted that increased economic interaction between the developed and developing countries is a pre-condition for global growth, the same argument is still not equally perceived to hold true for increased interaction among the developing countries. In the Caribbean great emphasis has been placed for the last ten years on co-operation within the subregion. During the last two years interaction between the Caribbean and the United States has received increasing attention while forging links with other countries and territories of the Caribbean Basin and with the rest of Latin America have not been equally pursued.

At a time of growing isolationism, stagnating trade and consequently, declining standards of living in both the developed and developing countries, the need to explore ways and new areas in which economic co-operation and exchange might be encouraged, becomes urgent. This should be an incentive to seek means of mutually advantageous economic and

^{20/} Ibid. p.108.

^{21/} Ibid. p.107.

functional co-operation within the larger Latin American region. Moreover, as the Group of Caribbean Experts pointed out, "the Caribbean countries should continue to build up their relations and solidarity with other countries in the Third World."^{22/}

Increased CARICOM activities through general agreements of co-operation with other integration groups, or through bilateral agreements with some third countries could have positive effects. Not only would it assist in overcoming limitations of small economic size, but it would also link CARICOM member countries to other countries at different stages of development. In addition, wider integration could open up possibilities for increased technical co-operation, and offer some alternatives to traditional metropolitan links.

This must be clearly perceived as a long-term task, embracing economic, non-economic and cultural elements. At the same time the implementation in the short-term of some successful and relevant co-operation activities might serve as a practical indication that it is a worthwhile and beneficial objective. ECLA, through its several offices and, especially in its Sub-regional Headquarters for the Caribbean, is advancing some preliminary proposals for future action that might stimulate the direct involvement of various agents in the Caribbean and Latin American subregions at the multi-lateral and bilateral levels, and specialized institutions in the public and private sectors.

^{22/} Ibid. p.5.

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