

INT-2473

POS/INT 75/90

Date: 26 December 1973



ECONOMIC COMMISSION FOR LATIN AMERICA  
Office for the Caribbean

ANTIGUA, ECCM AND CARICOM

Preliminary Observations

Prepared by

Mr. G.S. Rampersad

## ANTIGUA, ECCM and CARICOM

### The Problem

There is an apparent difficulty faced by ECCM member states because of the reluctance of Antigua to accede to the Caribbean Community Treaty. The central problem derives from their individual and collective obligations vis-a-vis Antigua, after their accession to the Caribbean Community Treaty. In order to examine this problem, it is necessary to recall briefly the background to the creation of the ECCM.

### Background

2. Antigua was one of the founding members of the original Dickenson Bay Agreement establishing a Free Trade Area between Antigua, Barbados and Guyana in December 1965. Although the Agreement never became operational, it stimulated discussion between all former members of the Federation to re-appraise their future relationships within the Caribbean, particularly regarding the need for a new strategy for co-operation. The Dickenson Bay document provided common ground, since its strategy of economic, as opposed to political, co-operation found wider acceptance. A significant new element in these discussions was the decision by Guyana to participate fully in any co-operative movement based on economic integration. The Dickenson Bay document was therefore used as the basic instrument for negotiating free trade arrangements within the wider Commonwealth Caribbean.

3. By May 1968, the negotiations had reached the stage where it was evident that there would be an effective Free Trade Area embracing all Commonwealth Caribbean countries; this was regarded as the first step in the process of economic integration. During these negotiations, some of the Associated States became concerned about their inferior bargaining position vis-a-vis the larger states, and sought an instrument which would improve their ability to negotiate on more equal terms. Subsequently, out of discussions

in the WISA Council of Ministers, the idea was born that a Common Market comprising the seven smaller states would be formed. Conceptually, the objective was to create a cohesive economic unit among those states which would constitute an effective fifth negotiating entity within CARIFTA, in contrast with the "Big Four". However, this implied that these states would take constructive and expeditious action in economic co-operation so that they would be always one step ahead of other CARIFTA countries in the integration process. It may be observed here that although the preamble to the Common Market Agreement makes reference to CARIFTA, there is no other reference to that Association in the ECCM Agreement.

4. The ECCM Agreement came into force on 1 July 1968 with a membership comprising the seven smaller states, and after this, all its members acceded to CARIFTA. The Agreement itself was deliberately written as a simple instrument containing the basic necessities of a Common Market Agreement; however, it provided all the main elements for the creation of an effective institution. What was required was initiative in activating the main economic clauses, apart from those dealing with trade liberalization. For a variety of reasons, no significant progress has been made in promoting co-operation in major areas outlined in the Agreement, except for the creation of a Common Customs Tariff. In the meantime, spurred by the desire to derive further benefits from economic integration, some countries at the CARIFTA level pressed for greater sectoral co-operation and creation of ancillary instruments as an aid to CARIFTA, thereby "deepening" the integration process. Considerable progress was therefore made in converting the Free Trade area into a closer form of economic integration. The result was the creation of a Caribbean Community Treaty, with the Common Market Annex as its main economic instrument. So far, all CARIFTA members, except Antigua, have acceded, or have indicated their intention to accede to the Treaty.

### The ECCM Agreement and Caribbean Community Treaty

5. As noted before, the ECCM Agreement is a very simple instrument, but compares favourably in content with the Common Market Annex of the Community Treaty. The Annex, however, contains some principles which are not specifically included in the ECCM Agreement. These are as follows:

- i. CARICOM's objective is a Common Protective Policy, which includes a Common External Tariff and a harmonised approach to quantitative and other restrictions. The ECCM Agreement makes provision for a Common External Tariff and "common commercial policies" to third countries.
- ii. CARICOM makes special provisions for Establishment, Services and Movement of Capital. The ECCM Agreement makes no provision.
- iii. CARICOM also envisages (a) the formulation of a series of Double Taxation Agreements; (b) the desirability of Harmonization of Laws; (c) a common approach to Ownership and Control of Regional Resources; and creates (d) a Special Regime for LDCs.

Essentially, however, there is no major fundamental difference between the Annex and the ECCM Agreement. But the Community Treaty does contemplate co-operation outside strictly economic areas: viz.

- (a) co-ordination of foreign policies;
- (b) functional co-operation in certain common services; and
- (c) promotion of social, cultural, and technological development.

In this regard, it may be noted that the relevant clauses are very flexible, and may even be described as "discretionary".

### The Future of CARIFTA and ECCM

6. All members of CARIFTA, except Antigua, have already given notice of their intention to withdraw from that Association under Article 33 of the Agreement. This means that on the expiration of the twelve-month period, there will be one CARIFTA member, i.e.

Antigua. Therefore in practical terms, there will be no CARIFTA. The ECCM Agreement, however, stands on its own and survives even if CARIFTA is dissolved. So far, there is no indication that present members of this Agreement intend to terminate it, and neither has Antigua decided to withdraw. Consequently, present ECCM members (excluding Antigua) will have a common market relationship with

- (a) all other ex-CARIFTA countries on the one hand, i.e. under CARICOM; and
- (b) with Antigua on the other hand, i.e. under ECCM.

7. In theoretical terms, it is possible to observe and maintain these respective rights and obligations in a tidy and satisfactory manner. In practice, however, there will be numerous administrative difficulties, not the least of which will be the role of the ECCM Secretariat. The nature of some of these difficulties could be examined in the context of the progress made in activating the provisions of the ECCM Agreement.

8. As noted above, the only area in which substantial progress has been made beyond that of trade liberalization, is the establishment of a Common External Tariff. What is significant, however, is that Antigua has so far not implemented this tariff. In effect, therefore, only a free trade arrangement exists between ECCM members who have implemented this tariff and those who have not; the latter group includes Antigua. The present position would therefore seem to indicate that this free trade relationship is the only obligation which LDC's who become members of CARICOM would have vis-a-vis Antigua.

#### Institutions

9. These would present some minor difficulties. Antigua is a member of the WISA Council of Ministers, and the ECCM Council of Ministers. If one accepts the reasoning that both these forums will be used as clearing ground for formulation of common approaches to negotiations with other CARICOM members, then it is conceivable that Antigua's contribution to deliberations would be either negative or

disruptive. A situation can therefore be envisaged where there is continual bickering within these institutions, with no progress made. Moreover, the fact that the ECCM Secretariat is now located in Antigua would create serious problems. This institution would functionally be serving six member states of CARICOM, and one non-member state who is its host. ECCA arrangements present little difficulty, except where decisions are taken to harmonise monetary policies within the broader CARICOM requirements.

10. Similar difficulties may be encountered in some Associate Institutions of the Caribbean Community in which Antigua participates; e.g., Regional Shipping Council, Caribbean Meteorological Council, the Council of Legal Education. In the case of the Caribbean Development Bank, a minor problem is also likely to arise, since Antigua enjoys joint representation along with the other Leewards on the Board of Directors. On the international scene, Antigua is a constituent of the single Associate member within the ECLA.

#### Antigua's Economy and its Approach to CARICOM

11. In many respects, Antigua has been one of the strongest protagonists of economic integration in the Caribbean. The current Government however seems to be less of an advocate than its predecessor, and it is therefore necessary to ascertain whether there are any technical reasons for this change of emphasis.

12. During negotiations in respect of both CARIFTA and the ECCM, the previous regime generally endeavoured to preserve an open economy, on the grounds of its need for imported inputs into tourism and its smuggling problems. This was possibly due to the country's economic evolution from basically agricultural to a tourist-oriented economy. At present tourism is the prime mover in the economy, and this has stimulated construction and some of the services sectors, including Government. Agriculture has declined with the virtual disappearance of both sugar and cotton, and these export staples have not been replaced by any significant growth in the domestic agriculture sector. In industry, apart from some small plants

geared to satisfy simple domestic needs, the major sub-sector is petroleum refining, based wholly on imported crude. The refinery, which now has an estimated capacity of about 18,000 b.d., enjoys extremely generous fiscal and other incentives.

13. Basically, therefore, agriculture has been replaced by Tourism, Construction and petroleum, all of which depend heavily on imported inputs, thus necessitating the preservation of a significant degree of "openness" in the economy. If this basic economic structure, which has been evident for the past decade, is deemed to be satisfactory, it is in the interest of Antigua to opt out of any common market arrangements. It may be noted here, somewhat paradoxically, that Antigua initiated study into the creation of the ECCM, and this may be construed as an indication that the state, under the previous administration, desired to change its strategy of development. In any case, from a technical viewpoint, it seems difficult to accept the present strategy based on imported inputs and the preservation of an open economy.

14. But even accepting this strategy, it is possible to accommodate it within the present framework of the Caribbean Community Treaty. The Annex makes provision for special arrangements by individual states for a specific industry, in this case petroleum, and recognises the important role of Tourism in development of Caribbean states. In any case the phasing-in period for the CARICOM Common Tariff and common protective policy, along with the provisions of Article 55, would provide Antigua with the necessary adjustment period, provided the state's longer term objective is to procure increasing ratios of its inputs to the tourist industry from domestic and regional sources. And this, in essence, is one of the prime objectives of economic integration.

15. There has also been a fear expressed that implementation of CARICOM's common tariff would have an adverse revenue impact in Antigua. This seems groundless in view of the low overall incidence of Antigua's tariff in relation to the proposed CARICOM tariff.

On the contrary, revenues would be increased, possibly with an upward price effect in the internal economy. This latter factor represents the real threat, but it may be observed that prices have been increasing sharply in CARIFTA countries, even before a Common External Tariff was introduced. In other words CARIFTA/CARICOM countries have been absorbing price increases generated by the international community without any compensatory benefits.

16. Antigua is probably also concerned at the real possibility that membership in CARICOM would necessitate substituting "high-priced" intra-CARICOM imports for "low-cost" extra-regional imports. In the present international context one may validly challenge this assertion, but it must be recognised that there are cogent arguments on both sides of the question. The problem resolves itself into one of the balance of benefits. The major objective of economic integration in a region with the historical background and resource base of the Caribbean, must be to make short-term "sacrifices" for longer term benefits. But the main integration instrument recognises this and makes provision for cushioning such short-term adverse impacts as may be envisaged by Antigua.

17. On technical grounds, there seems to be no over-riding reasons for Antigua opting out of CARICOM. Even the short-term "balance of benefits" problem can be satisfactorily resolved, provided the state wishes to preserve its present dependence on Tourism and Petroleum refining. Of course, in the longer run, its economy must undergo some transformation; otherwise, there is no need for economic integration. The reasons would therefore appear to be politically motivated, and this aspect cannot be examined here.