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DESENVOLVIMIENTO DE LOS PROCESOS DE INTEGRACION
EN AMERICA LATINA Y EL CARIBE

**DEVELOPMENT OF THE INTEGRATION PROCESSES IN
LATIN AMERICA AND THE CARIBBEAN */**

ENGLISH VERSION OF THE SUMMARY AND
CHAPTER VI: "THE CARIBBEAN
COMMUNITY (CARICOM)"

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I. SUMMARY

It should be pointed out that the Latin American Integration Association (LAIA) is continuing to experience a difficult transition period, characterized both by the dynamism of subregional and bilateral initiatives and by a marked lack of interest on the part of countries in multilateralism. On the instructions of the Presidents of States members of the Rio Group, a formal assessment of the Association was carried out, with a view to identifying the measures necessary to give it the flexibility and efficiency that current prospects for integration require. The final outcome of this assessment was the presentation of a draft resolution to the latest Meeting of the Council of Ministers. The resolution proposed represented an effort at finding a solution to the dilemma posed by the application of article 44 of the Montevideo Treaty. The need for a solution to this issue had arisen after Mexico signed the North American Free Trade Agreement (NAFTA), and also because a large number of other member countries had expressed their interest in accession to the agreement. However, on that occasion, no agreement was reached on the matter. The interpretative protocol of article 44 was finally adopted at an extraordinary meeting of the Council of Ministers which took place in June 1994. This protocol stipulates that application of article 44 may remain pending, provided that the country granting preferences enters into compensatory negotiations with the countries which feel affected. However, to date, these negotiations have not yet been initiated, owing to countries' different interpretations as to the exact sense of the protocol.

It would appear, where the members of LAIA are concerned, that partial agreements, including those with countries not members of the Association, are of greater importance than strengthening multilateral ties. For sure, the agreements signed in the course of this decade differ from previous ones in that they involve a high degree of commitment, generally entailing real liberalization of substantial areas of joint trade within very short periods. For their part, the partial and trade agreements negotiated during the 1980s continue to be extended and applied in conformity with the time frame and principles envisioned in each case, although their importance is diminishing as some agreements expire or as their preferences are incorporated into new subregional and bilateral agreements.

The most important development which has taken place regarding the LAIA has undoubtedly been the entry in force of MERCOSUR at the end of November 1991. As also occurred with the creation of the Andean Group, the member countries are attempting to attain a greater degree of integration than they believe attainable with the remaining LAIA member countries in the short and medium term. However, in their favour was the fact that they had already achieved a level of integration in trade and infrastructure which compared favourably with the rest of the region. Throughout the entire transition period, the countries complied with the automatic tariff reduction programme, and in fact by late 1994 the bulk of commercial exchanges were taking place under conditions of free trade. The process of negotiating the Common External Tariff (CET) suffered a number of delays, but was completed on schedule, and the CET agreed upon was implemented by the four countries beginning on 1 January 1995.

Thus, as of that date, MERCOSUR became a customs union, albeit an imperfect one. Countries have temporarily made a relatively limited number of exemptions, both as regards the application of the free trade regime and the CET. A number of major challenges remain, including the strengthening of fair trading conditions as regards imports from partners in the agreement and other countries, the elimination of all non-tariff barriers with respect to these partners, the coordination of macroeconomic policies and the introduction of the right of establishment for individuals and firms from the subregion. It is clear that, to date, the MERCOSUR countries have managed to achieve their main goals of integration on schedule, thanks to firm political support to the process and the pragmatism demonstrated during the negotiation phase and the formal implementation of the agreements. The results, in terms of reinforcing reciprocal ties, have not been long in coming. Thus, by way of example, trade within the subregion has virtually tripled in the course of the 1990s alone, and the share of such trade in total exports currently stands at about 20%.

In the north of the region, another subgrouping has emerged, in the wake of a complex series of negotiations. Known as the Group of Three (G-3), this association seeks to establish a free trade area between Colombia, Mexico and Venezuela. The substantial trade links which already existed between Colombia and Venezuela, together with broad similarities in their economic policies, helped pave the way for this initiative. The agreement, which came into effect in early 1995, entailed the immediate elimination of tariffs on 62% of exports, in the case of Colombia and Venezuela, while Mexico obtained the liberalization of just 16% of its exports. The trilateral trade area is set to be completed in the year 2005 with the implementation of an automatic progressive tariff-reduction programme.

This information provides grounds for thinking that trade between Mexico and the other two countries, though still modest at present, may increase significantly as tariff and non-tariff barriers between the parties are effectively removed and as Mexico and Venezuela succeed in overcoming the unfavourable economic climate both currently face.

In a similar vein, there has been increased negotiation at the bilateral level, involving active participation by countries such as Argentina, Chile, Mexico, Venezuela, Colombia and Bolivia. As a result, some 30 economic complementarity agreements have already been signed, virtually all of which are bilateral in nature.

The "new generation" of agreements is markedly different from those concluded in the 1980s. Generally speaking, these new agreements aim to bring about free trade in most reciprocal trade within a short period of time, and usually include useful linking mechanisms in areas such as the connecting up of infrastructure, promotion of reciprocal investments and of trade in services and flexible procedures for dispute settlement. As a general rule, such agreements involve countries which have similar trade and economic policies, or are located close to one another, and which already enjoy significant economic links. In this last case, the partners tend to be more careful by restricting the degree of coverage in trade. Proceeding in this manner, the new agreements enable the parties to keep greater control over the resulting costs and benefits.

The consolidation of subgroupings, combined with the proliferation of bilateral agreements, is giving rise to an ever more complex network of integration agreements within the LAIA, and it is possible for certain countries to be participating simultaneously in subregional associations, partial agreements of the traditional variety, and "new generation" agreements with both members and non-members of LAIA. The Montevideo Treaty of 1980 expressly provides for this possibility. Subregional schemes such as the Andean Group and MERCOSUR are also adapting to this new and complex set of circumstances, by allowing their member countries to reach agreements with non-member countries, with the possibility of concluding partnership agreements with third countries. Such institutional arrangements may be unavoidable in the present circumstances, but it could also legitimately be asked how all agreements will converge into an integrated regional market.

In the early 1990s, the Andean Group took on new momentum. On several occasions, it reduced the deadlines for total liberalization of reciprocal trade and implementation of a Common External Tariff (CET). In other developments, the common regime for foreign investment and sectoral programmes for industrial development were, for all practical purposes, abolished while considerable progress was made towards liberalizing intraregional air and sea transportation.

These agreements and other developments were indicative of the new direction of the Andean integration process, which is now seeking to take full advantage of the benefits of free trade as well as more vigorous integration in world trade. With respect to trade liberalization, it should be borne in mind that Colombia, Peru and Venezuela had already fulfilled a substantial number of their commitments by late 1990. In October 1992, Bolivia completed its liberalization programme, and Ecuador did likewise in early 1993. As part of this strategy, the countries began negotiations concerning a CET, but actually defining the characteristics of a CET proved more difficult than had been anticipated. Finally, after more than a decade of discussions, the CET took effect on 1 February 1995. Beginning on that date, the countries formed a customs union, albeit one with some shortcomings. Colombia, Ecuador and Venezuela made exceptions to the CET, while Bolivia and Peru continue to apply their respective domestic tariffs for the time being.

In early 1992, Peru temporarily suspended its commitments vis-à-vis the Group's trade provisions and with respect to the harmonization of macroeconomic policies; it was hoped that Peru could fully reintegrate into the Group by mid-1995. In the meantime, Peru has been channelling a good part of its trade with its Andean partners through bilateral agreements. The liberalization of reciprocal trade between countries has resulted in a notable recovery and expansion in exchanges in recent years.

Undoubtedly, renewed prospects for integration in Central America are attributable to the gradual restoration of peace in the region and the return to democracy in all of the countries. As peace initiatives gathered momentum, presidential-level meetings have taken place more frequently, and in recent years these have focused on revitalizing economies in general, and regional integration in particular. Furthermore in recent years, the countries of the subregion have, like other countries in the region, redoubled their efforts to open up their economies, expand their international trade linkages and, in general, free up all economic activity. None the less, despite

the efforts employed, the subregion has still not managed to shrug off entirely the aftereffects of the economic and political crisis it faced and these continue to have an impact on the integration process.

In line with these new circumstances, the countries decided to replace the series of bilateral treaties in force between them, with a free trade area which was scheduled to become fully operational in 1992. Honduras has rejoined the Central American integration process and has combined with El Salvador, Guatemala and Nicaragua to form the Group of Four. In fact, these four countries have been operating as a customs union since mid-1993, and considerable progress has been made towards the free movement of labour and capital resources.

In addition, negotiations involving the six countries have also continued. At the fourteenth summit meeting of Central American Presidents in 1993, a Protocol to the General Treaty on Central American Economic Integration was signed, with the aim of renewing the Treaty and adapting it to the current circumstances. According to this Protocol, the countries undertake to achieve the Central American Economic Union in a voluntary, gradual, complementary and progressive manner, without setting dates for the different phases of the process. In this way, it was left up to each country to determine the character and extent of its participation in the integration process.

Nevertheless, there has been some delay in implementing the original proposals and they have been executed to varying degrees.

This is due to the variety of viewpoints which emerged among the five countries as to the swiftness with which different commitments should be executed. In addition, the substance of some of these commitments has been questioned by Costa Rica, and more recently, by El Salvador. It seems evident that, although Central America has clearly established its political priorities, especially through the Presidential Declarations, day-to-day practice and national policies advance at their own pace and in their own directions.

In terms of the institutional and economic goals of intensifying the process, the course of Central American integration has been rather slower and more inconsistent during 1994 and the first months of 1995. This loss of momentum would also appear to be reflected in recent trends in trade within the area, given that such trade was less robust in 1993 and 1994 than growth in exports to third countries.

The Caribbean Community (CARICOM) has undergone a sequence of positive developments as well as several set-backs, which broadly parallel the events which have occurred in Latin America. In the second half of the 1980s, economies in the subregion began to show signs of recovery, and this had a positive effect on trade between the countries. There has also been greater harmonization of the countries' main economic policies; as these have been taking an increasingly liberal direction, though still less markedly than in the countries of Latin America.

In mid-1989, the members of CARICOM stated their commitment to re-establish the basic conditions for the operation of the common market and to move towards integration so as to

create, within the shortest time possible, a single market and economy. On a number of subsequent occasions, it was necessary to postpone the deadlines for the implementation of commitments, such as the entry in force of the CET and a new set of rules of origin. At their summit in July 1993, the Heads of State agreed to set up a common market beginning in January 1994, while monetary union was slated for late 1995. Since the summit, these proposals have made some headway, although they have yet to become a reality.

At the same time, concern has mounted that the commitments to integration might hamper the general process of expanding international trade links which countries are now aiming at. For this reason, it has been accepted that the implementation and administration of the CET requires continuous adjustments in order to adapt it to changing circumstances, both on the internal and external fronts.

At their last meeting in February 1995, the Heads of State declared that three member countries had still not dismantled their prior import license procedures and that four countries had yet to provide for free trade in agricultural products. Although progressive changes to the structure of the CET have been mapped out until 1998, their actual implementation has been hampered by delays in a number of countries. Moreover, with regard to the harmonization of macroeconomic policies, there is no denying that these are in fact more divergent now than they were 20 years ago. Furthermore, efforts at reviving the CARICOM multilateral clearing facility have been unsuccessful.

While there have been delays in implementing a number of the main instruments designed to foster trade integration, concrete steps have been taken in related areas. These include issues such as the gradual liberalization of movement for citizens of CARICOM members within the Community; facilitating of capital movements; and progress towards double taxation agreements. The possibility of achieving the monetary union of all CARICOM countries also continues to be studied.

VI. THE CARIBBEAN COMMUNITY (CARICOM)

A. BASIC MOTIVATIONS AND EARLY RESULTS

Because of their small size and limited resource base, the countries of the Caribbean have always expressed keen interest in economic integration. Despite set-backs suffered in the past, this interest continues to the present day. It is estimated that the 13 countries that make up the Caribbean Community (CARICOM)^{1/} have a combined population of no more than 5.5 million, while their foreign trade (exports plus imports) currently amounts to some US\$ 11 billion, which makes the Community a small-sized trade bloc. In addition, it should be borne in mind that member countries export mostly the same products, a factor which limits still further the prospects for reciprocal trade. Indeed, despite all the efforts to deepen integration over recent years, the CARICOM market absorbs no more than 10% to 12% of the total exports of member countries. While it is true that these percentages are generally higher for the smallest countries, they have little weight in total trade within the subregion. CARICOM continues to depend heavily on imports for its food requirements, and there is little evidence that manufacturing industries created thanks to protectionist regimes have shown any ability to penetrate markets outside the region. The total amount of the region's external debt -some US\$ 9 billion- is roughly equivalent to three times the value of its exports, although the external debt has tended to drop slowly in the course of this decade.

The organization which preceded CARICOM, and was known as CARIFTA (Caribbean Free Trade Association), came into existence in 1965 with the signing of the Treaty of Dickenson Bay. As its name suggests, it sought to promote quickly free trade between the member countries. In any case, it allowed a series of exceptions for sensitive products and infant industries, which would only gradually be subject to liberalization. The lesser developed countries of the region formed, within CARIFTA, a subregional association which, beginning in 1972, formulated a common external tariff (CET).

Before long, all the countries decided to deepen their integration. In 1973, the Treaty of Chaguaramas established CARICOM as successor to CARIFTA. The plan envisaged the elimination of tariffs on reciprocal trade and the creation of a CET. The four largest countries of the Community -Barbados, Guyana, Jamaica and Trinidad and Tobago- immediately applied their common CET. Six states which were considered to be less developed continued to apply

^{1/} The four major countries -Barbados, Guyana, Jamaica and Trinidad and Tobago- along with the eight "less developed countries" of the region -Antigua and Barbuda, Belize, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent/Grenadines- are all full members of CARICOM. Bahamas has been a member of the Community since 1983, but does not participate in the common market. The Dominican Republic and Haiti have observer status and on numerous occasions have expressed interest in becoming members. Anguilla, the British Virgin Islands and the Turks and Caicos Islands have expressed similar interest. Suriname was finally accepted as a member of CARICOM at the sixteenth inter-sessional meeting held in February 1995.

the lower CET that they had introduced previously and, in 1981, they formed the Organization of Eastern Caribbean States (OECS).^{2/} The countries which make up this organization have a total population of just 600,000 people. Achievements of the OECS include the unbroken use of a common currency, which was inherited from their colonial past, and the establishment in 1983 of the Eastern Caribbean Central Bank. As a group, the lesser developed countries of the region have recorded trade with the regional market which is almost double that of the CARICOM average, although the exports of some countries towards the region -above all Belize, St. Kitts and Nevis and Monserrat- have recorded poor growth, and in some cases have even dropped.

The scheme was expanded in 1974, with the Agreement on the Harmonization of Fiscal Incentives to Industry. It forms part and parcel of efforts to promote industry and economic activity in general, within the framework of the common market. It provides for harmonization of exemptions to income tax and import tariffs. October 1988 saw a revised system of fiscal incentives come into operation.

As happened in the case of the Andean Group, proposals were made to incorporate industrial programming and to foster the development of joint ventures (the CARICOM Enterprise Regime). The first of these was approved in 1985 and provided for a series of regional industrialization projects to be identified and then allocated among member countries by the Council of Ministers. In order to qualify as a regional project, a project was required to provide a major contribution to the interlocking of member countries' productive structures. The benefits provided by these projects comprised preferential tax and financial treatment, and tariff protection in the face of the extraregional and regional competition which has arisen in spite of the scheme. Most member countries had ratified the mechanism by 1988, but according to available information, it has still not entered into effect as of the present time.

The Enterprise Regime had its own authority and was due to become operational during 1990. The main objective of the Regime was to promote investments in those sectors which were deemed a high priority and which sought to be incorporated in the region's system of production. The Regime was designed to facilitate the movement of capital between member countries and encourage joint ventures between CARICOM members. In order to take advantage of the Regime, an enterprise needed to have regional owners and be under the control of nationals of the region. The Regime has still not entered into operation.

A cooperative programme in the farming sector was introduced with greater swiftness. The aim of the programme is to set up a regional market for a limited number of essential agricultural outputs, so as to increase food security in the region. The Conference of the Common Market for Oils and Fats was set up, and this body has continued in operation up to the present, despite a number of problems. Basically it is responsible for setting prices for these products, as well as regulating the intra-regional market for, and promoting trade in, such products. The problems

^{2/} The seven members of the OECS are Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia and St. Vincent/Grenadines. Belize is not a member of the OECS. The British Virgin Islands was admitted as an associate member in 1984, but does not participate in common market arrangements of either the OECS or CARICOM.

which have occurred can be traced to the fact that the region's main raw material, coconut oil, has lost its competitiveness in relation to substitutes from outside the region.

CARICOM differs from other integration schemes in the region in its emphasis on cooperation in areas other than foreign trade. These include the farming sector, energy, transportation and tourism; in addition, a process known as "functional cooperation" has been applied in areas such as health, education (including matching educational qualifications), sports, culture, tax administration, environmentally sustainable development, human settlements and joint protection of civil rights. In such instances, the main motive for cooperation has generally been to achieve the economies of scale which are beyond the possibilities of individual countries, or else to take advantage of the benefits inherent in cooperation. In a number of such areas, cooperation has worked reasonably well and has provided for efficiency gains in the provision of services. In other areas, joint efforts have not brought long-lasting results, as evidenced by the dissolution of the West Indies Shipping Corporation (WISCO) and the recent decision to privatize the Leeward Island Air Transport Company (LIAT), which was set up in 1974.

The CARICOM Multilateral Clearing Facility (CMCF) was established in 1977 and, in its most successful years, it permitted a saving of up to 85% in convertible currencies. The way in which it operated changed when the external crisis deepened. Operations were suspended in March 1983 after Guyana had accumulated an intraregional debt of US\$ 100 million, a figure equivalent to the system's total creditworthiness. There have been numerous attempts at reforming the facility, but to date none has met with success, largely owing to Guyana's inability to meet its debts and other CARICOM countries' unwillingness to inject additional liquidity into the system. There is agreement, however, that the facility should be provided with greater safeguards in order to avoid its collapse.

Throughout the period in which CARIFTA was in effect, reciprocal trade developed favourably in response to the incentives provided. Trade did, however, become sluggish in the period from 1974 to 1977, due to the negative external economic situation besetting the countries in the wake of the first oil crisis. After a brief period of recovery, the crisis of the 1980s led once again to a set-back on the trade front and inactivity in the institutional framework.

The world recession had a particularly severe impact on Caribbean economies owing to their high degree of dependence on international trade. In order to cope with the consequences of this economic downturn, the countries placed numerous restrictions on imports from all sources. As a result, reciprocal trade posted a steep fall. Reciprocal trade fell from the all-time high of US\$ 509.3 million recorded in 1982 to US\$ 282 million in 1986, a drop of 45%.

Throughout a good part of the 1980s, efforts were made to revitalize reciprocal trade and generally reverse the negative developments characterizing the integration process. Several of these initiatives were implemented only partially and always with considerable delays. Meanwhile, the CARICOM secretariat pursued its efforts to improve the mechanism, for example by reviewing the rules of origin, the system of customs valuation and the harmonization of tax incentives.

B. NEW STEPS IN THE INTEGRATION PROCESS

From 1986 onwards, Caribbean countries demonstrated greater willingness to seek agreements on integration. Several factors have converged to contribute to this change in attitude. Along with the economic recovery referred to above, there is greater similarity between the countries' main economic policies, which are increasingly oriented along neo-liberal lines.

More recently, the prospect of a united Europe beginning in 1993 heightened concern that conditions of access to this market might deteriorate. Furthermore, the creation of a free trade area between the United States and Canada led to the speeding up of efforts at integration throughout the rest of the continent. Lastly, negotiators from the subregion took part in meetings to reform the Lomé Convention and the Caribbean Basin Initiative. There they learned the value of working together.

Beginning in 1987, economies began to show signs of recovery, after undergoing a period of structural adjustment. In 1987, most of the non-tariff barriers to intraregional imports were eliminated, and this was reflected in new growth in such imports. In fact, the share of reciprocal trade in the subregion's total exports increased from 10.6% in 1986 to 14% in 1989. This trend shows that imports from other countries in the subregion increased at a markedly quicker pace than those from the rest of the world. In the early 1990s, intra-CARICOM trade once again lost momentum, but starting in 1992 picked up somewhat (see table 1).

As was the case with other integration schemes in Latin America, it was the Heads of Government who gave the the integration process the greatest boost. At their tenth summit meeting, which took place in Grand Anse, Grenada, in July 1989, the CARICOM Heads of Government issued a declaration in which they repeated their commitment to re-establish the basic conditions required for the common market to function and to take further steps towards the integration of their countries. In doing so, they reaffirmed the goal of establishing a single market and economy, in the shortest possible period of time. 1994 was subsequently set as the year by which this goal was to be attained. With this objective in mind, the following decisions were adopted:

- i) 1 January 1991 was set as the date by which the three basic instruments of the common market were to be reviewed and implemented;
- ii) The two countries which had not yet adopted the Protocol instituting the Industrial Programming Scheme were urged to quickly do so;
- iii) Member countries were urged to ensure that the CARICOM Enterprise Regime, which came into effect in October 1988, was actually implemented;

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

v) Joint efforts were to be undertaken to increase food security in the region were to be expanded;

vi) Steps were to be assumed to establish a regional system of maritime and air transport by mid-1992; and

vii) Commitments were accepted to eliminate, beginning in 1991, the requirement for citizens from countries members of CARICOM to carry a passport when they travel within the region. This measure forms part of a package designed to liberalize the movement of labour in the region, and which includes the issue of work permits and reciprocal recognition of social security rights.

The Heads of Government also decided at that meeting to initiate studies on the adoption of a common currency and the establishment of a capital market in the region, with a view to achieving monetary union in 1995. Lastly, 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 Agreement establishing the Parliament of the Caribbean Community took effect on 3 August 1994, after ratification by the seventh country.

Barely one year later, the Heads of Government met again, at their eleventh summit, held in Kingston, Jamaica in August 1990. On that occasion, they adopted the following resolutions relating to integration:

a) April 1991 was set as the deadline for the implementation of a new common external tariff (CET), along with the revised rules of origin and the tax incentives harmonization scheme. The CET was to be applied first of all by the four larger countries; the remaining countries, with the exception of Montserrat, would apply the CET during 1991, and Montserrat was to follow suit on 1 January 1994, so that on that date the Community would be operating 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 become applicable during 1991.

At their twelfth conference, held in St. Kitts and Nevis in July 1991, the Heads of Government decided to implement a series of measures related to the six areas identified as of priority interest by the West Indian Commission. The Commission was set up in 1989 as an independent body, and given the task of coming up with proposals to revitalize the Caribbean Community. The six areas identified by the Commission were: promotion of the common market;

liberalization of travel within the Community; free movement for professional workers; creation of a common currency; promotion of intra-community investment; and adoption of a joint position in international negotiations.

In view of the delays experienced in implementing the common external tariff, it was decided to postpone the date of actual implementation until 1 October 1991. The lower and upper limits of the CET were set at 5% and 45%, respectively. At the same time, strict rules of origin were set to come into effect.

In January 1992, the Heads of Government of OECS countries met to accelerate negotiations aimed at the establishment of a single market in that economic grouping. Four of the countries also sought political integration through the establishment of a federal government which would be in charge of areas such as national security and defence, foreign affairs, justice, the money emission and social security.

At their third inter-sessional meeting, which took place in Kingston, Jamaica in February 1992, the Heads of Government had to deal with a complex situation caused by delays in implementation of numerous measures. In effect, several countries had been unable to meet the deadlines agreed upon for implementing the trade regime, and this was especially so in the case of import licenses and other administrative barriers to trade. Moreover, it was noted that reciprocal trade had stagnated in 1991. Several countries set 2 April 1992 as the deadline for removing remaining trade barriers.

It was noted at the meeting that the CET was being applied in eight member countries. The remaining countries -Antigua and Barbuda, Montserrat, St. Kitts and Nevis and St. Lucia- were urged to adhere to this commitment as soon as possible, and to no longer apply their respective 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 delays occurred in implementing some of the main instruments of trade integration, progress was made in related fields. For example, five countries now allow nationals of CARICOM countries to travel freely with documents other than a passport. Agreement was also achieved concerning rules that would govern the CARICOM Investment Fund. The initial steps were taken towards facilitating capital movements within CARICOM, with the aim of interconnecting the stock exchanges. None the less, to date only limited transactions have taken place among the stock exchanges of Trinidad and Tobago, Jamaica and Barbados. A proposal for a double taxation agreement is under study, as is a project to establish monetary union that would encompass all member countries of CARICOM. The introduction of a common currency, which would exist alongside local currencies, is also under examination. The desire to make progress in these last two areas led to the creation of a Council of Central Bank Governors in the region in March 1993. However, the Council has found it difficult to implement its aims.

At the same time, doubts have arisen as to the feasibility of some of the agreements, especially those related to the implementation of the common market. For example, the free movement of labour becomes problematic in light of the fact that a number of member countries have high unemployment rates. For this reason, this measure is to apply initially only to graduates from universities of the region and workers in the media. In a similar vein, it has been stated that a single currency would only be viable if it is clearly linked to the United States dollar, and for this reason there is insistence that local currencies once again be convertible. Concern has surfaced in the region as to whether commitments to integration may actually obstruct the drive to expand international trade linkages. More specifically, some analysts maintain that adoption of the CET may perpetuate the anti-export bias of Caribbean economies. In response to these concerns, a programme has been mapped out which prescribes a gradual reduction in the maximum tariffs of the CET.

The thirteenth summit of Heads of Government, which took place in Port of Spain from 30 June to 2 July 1992, focused on finalizing tariff agreements in the lead up to a common market in 1994. The issue of the introduction of a common currency was also discussed.

At their next inter-sessional meeting, conducted in Port-of-Spain from 28 to 31 October 1992, the Heads of Government adopted the proposals contained in the report of the West Indian Commission entitled "Time for Action". That report specified the principal measures required to speed up and deepen the integration process. An organization known as the CARICOM Bureau was set up in order to give greater political impetus to the Community and to strengthen its institutional infrastructure. The Bureau consists of the current President of the Heads of Government Conference along with the incoming President and the past President. The Bureau considers urgent matters that arise between regular meetings of the Heads of Government. It also formulates proposals, updates agreements, implements initiatives and ensures that decisions adopted by the Heads of Government Conference are carried out. At subsequent meetings, the Bureau has recommended the Conference tackle as a matter of priority those areas identified by the Commission which have not yet been addressed. These include the free movement of professional workers in the region, banana exports to the European Community and exports of assembly products to the United States.

As regards the common external tariff, the Heads of Government agreed that an adequate level of protection should be provided to sensitive sectors, in particular the agricultural sector, while also taking into account the current international trend towards a reduction in tariffs. In this regard, the decision was made to gradually reduce the maximum CET of 45%, with the aim of reaching, by 1 January 1998, a tariff of between 5% and 20%, similar to that being implemented by competitive trade blocs in Latin America. In line with this decision, the tariff ceiling was lowered to 35% for non-agricultural products on 1 January 1993. Agricultural products continue to benefit from a maximum tariff of 40% until 1998. The timetable stipulates that all member states must have adopted this new CET by mid-1993.

The Heads of Government also agreed to cooperate in external affairs, including the establishment of joint diplomatic missions overseas. They also accepted the proposal by the West

Indian Commission for the establishment of an Association of Caribbean States (ACS) which would encompass, in addition to the 13 CARICOM countries, all the countries of the Caribbean Basin. The ACS would not replace CARICOM, but would rather retain it as its core. This proposal came to fruition in Cartagena, Colombia, on 25 July 1994 when the 25 countries located in the Caribbean Basin signed the agreement creating the Association of Caribbean States.

At their fourteenth conference, which took place in Nassau, the Bahamas from 5 to 8 July 1993, the Heads of Government agreed to establish a common market in January of 1994 and to usher in monetary union by the end of 1995. Nonetheless, there were still major lags in implementing the CET, in eliminating non-tariff barriers to intraregional trade and in re-establishing the multilateral clearing facility. The meeting also discussed a draft version of a Charter of Civil Society, the aim of which is to provide a common framework for civil and human rights. This proposal was then referred back to the countries for discussion.

In their final declaration, the Heads of Government emphasized the usefulness of maintaining a close relationship among the external economic strategies of the countries, the development of a single market, and cooperation in the field of monetary and financial integration. One group of countries took responsibility for implementation of a Common Foreign Affairs Programme. Initially, this would involve coordination between the strategies adopted in negotiating access to external markets and CARICOM integration policies.

At the next inter-sessional meeting, held in Port-of-Spain in mid-October 1993, two specific decisions were taken. First, it was agreed that foreign investment in the region would no longer be subject to double taxation. Second, it was decided to set up a Caribbean Investment Fund, with an initial capital of US\$ 50 million.

The countries are making progress in their efforts to establish a Court of Justice and an Assembly of Parliamentarians for the Caribbean Community. The second of these initiatives is in the process of ratification by member countries.

C. LATEST DEVELOPMENTS

The fifteenth summit meeting was held in early July 1994 in Barbados. The Heads of Government emphasized the importance they attached to the process of deepening subregional integration, through the creation of a single market within the shortest possible time. Consequently, it was decided that the following inter-sessional meeting should focus its attention on this matter. Member countries were urged, in the interim, to proceed rapidly with the implementation of those decisions taken previously which pave the way for the creation of a single market and economy. The Prime Minister of Barbados was given the responsibility of presenting a report on this matter in order to guide discussion at the next inter-sessional meeting. This report should provide an up to date picture of the extent to which the decisions just

mentioned have been carried out, and should identify priority areas for action and identify the appropriate strategy to take and the resources required.

The report was presented at the sixteenth inter-sessional meeting of Heads of Government held in mid-February 1995 in Belize, where it served as the basis for discussions and recommendations. Regarding the first objective, the extent to which decisions have been carried out, the report provides the following information:

i) free trade in goods: three member countries have not yet dismantled their prior import license procedures, four do not yet provide for free trade in agricultural products, and two have not yet ratified the new scheme to liberalize trade in oils and fats;

ii) Common External Tariff: the evolution of the CET has been defined up until 1998. One country has still to implement the first phase (up until June 1993), while Jamaica and Trinidad and Tabago have already implemented the second phase (1 January-30 June 1995);

iii) Elimination of controls on movement of people within CARICOM: Five countries have yet to adopt measures for the acceptance of identity cards other than passports;

iv) Double taxation agreements: nine countries have signed such agreements;

v) The right of establishment: this is still restricted in several countries where laws favour citizens of that country;

vi) The right to transfer capital and profit: Barbados, Jamaica and Trinidad and Tabago have made arrangements to link their respective stock exchanges. Transactions among the three exchanges began in April 1991, but volumes have remained low. Technically the CARICOM Enterprise Regime is operational, but no enterprise of this sort has been established. The Regime's effectiveness is being reviewed. The Industrial Programming Protocol is in a similar situation: all member countries have signed the Protocol, but no concrete steps have been taken towards its implementation.

vii) Harmonization of macroeconomic policy: As things stand, macroeconomic policies are currently more divergent than they were in 1973. The Council of Central Bank Governors has identified the exchange of information and the coordination of macroeconomic policies as priority tasks, given that they are prerequisites to the establishment of monetary union.

The report recommends using the scarce available resources to carry out those tasks which are fundamental to the achievement of a single market and economy. In general terms, the report recommends: implementation of free movement and similar treatment between member countries of goods, services, and factors of production, the maintenance of a common policy as regards economic relations with other countries, payment in cash and with minimum additional fees for trade in good and services and for capital movements, and comparable conditions for economic agents throughout the subregion. The report goes on to recommend concrete steps for redressing

the flaws it identifies and which are mentioned above. The report highlights the importance of promoting convertibility between member countries' currencies as a major step towards the introduction of a common currency and monetary union. Lastly, in an effort to secure comparable conditions for economic agents, the report proposes the harmonization of investment incentives, avoidance of double taxation, harmonization of tax systems, and coordination of monetary, fiscal, foreign exchange and interest rate policies. The parties are requested to set strict deadlines for the completion of all of these tasks and to make a firm commitment to adhere to them.

D. RELATIONS WITH OTHER COUNTRIES

In August 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, in so far as the access of Caribbean products to the United States market is concerned. It offers, for example, duty-free entry for products covered by the agreement and manufactured in countries with components from the United States and Puerto Rico which, for customs purposes, are regarded as locally made components. To benefit from this scheme, the products in question must have local value added of at least 35% and have undergone substantial local processing. The President of the United States has the right to alter these rules of origin in specific instances. However, textiles continue to be excluded from the CBI, and sugar quotas were not increased. Moreover, investments in outputs which are eligible for the scheme are now mainly being channelled to Central America.

The benefits of the Enterprise for the Americas Initiative are also extensive to CARICOM members. At their St. Kitts and Nevis Summit, the countries decided to send a delegation to Washington to negotiate jointly a framework agreement with the United States. This agreement was signed on 22 July 1991. It envisioned the creation of a Joint Council on Trade and Investment.

However, CARICOM members, together with Central American countries, have continued to view the Initiative with reservations. This suspicion grew when Mexico joined the North American Free Trade Agreement (NAFTA). CARICOM leaders are most concerned that in-bond assembly plants set up in the Caribbean might move to Mexico. They are also worried that the United States might demand reciprocity in trade concessions, which would mean the end of the preferential treatment they had obtained through the CBI. These issues were discussed during a meeting 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 entrusted the Trade Representative in his Administration with the task of studying the impact of NAFTA on the Caribbean economies, and to consult with the Caribbean countries in an effort to devise new measures to increase regional trade.

In the second half of 1994, the United States Government formulated a proposal to achieve these aims, known as the "Interim Trade Programme". As its name suggests, it is a

temporary initiative which is designed to extend the same treatment accorded to Mexico by NAFTA in trade in textiles and garments to the countries benefiting from the CBI. According to this proposal, the lesser developed countries of the region would not be obliged to confer reciprocal treatment on the United States. However, the difficult political situation in the United States prompted the Administration to withdraw the proposal, and concentrate instead on ratification of the Uruguay Round. This delaying has created concern in the region; the Heads of Government met at a special meeting in Jamaica in November 1994 to analyse the consequences of this delay and plan an appropriate course of action. At the Summit of the Americas, held in Miami in December 1994, the CARICOM countries showed little enthusiasm to set up a hemispheric, reciprocal free-trade area by the year 2005. On 19 January 1995, a group of representatives submitted a fresh initiative to the United States Congress. This initiative, known as the "Caribbean Basin Trade Security Act", proposes extending to the countries which benefit from the CBI a treatment equivalent to that the United States accords NAFTA countries.

In this context, it is useful to remember that the CARICOM countries have a trade agreement with Canada, known as CARIBCAN, that grants many of their exports free access to the Canadian market.

It should also be borne in mind that CARICOM countries benefit from the fourth Lomé agreement, which grants free access to the market of the European Union for most exports until the year 2000. In the case of major products such as bananas and sugar, the countries are guaranteed preferential access vis-à-vis other developing countries that are not signatories to the Lomé agreement. None the less, some of the banana-exporting CARICOM countries are concerned that the creation in 1993 of a single European market may adversely affect them, for it implies loss of the (hitherto) secure quota they enjoy in the British market. In the latter part of 1993, banana-exporting countries in Central America intensified their efforts to obtain improved access to the European Union, as they are more efficient producers than the Caribbean countries. They referred the matter to GATT for a review of the quota system imposed by the EU on banana imports. As a result of their joint efforts, the European Union agreed in March of 1994 to increase the quotas assigned to the countries of Central America. In January 1995, the United States once again challenged the European Union banana regime, arguing that it affects the interests of its banana-exporting firms in Central America. This action only served to complicate relations between the CARICOM countries and the United States.

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 on Trade and Investment was formed to ensure implementation of the Agreement by the end of 1992. On 13 October 1992, Venezuela was admitted to CARICOM with observer status.

The Ministers of Foreign Affairs of CARICOM and the Central American Common Market (CACM) 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 some of their economic policies. In principle, the free trade area would be established by means of a temporary multilateral free trade agreement. Coordination would extend to the sending of joint missions to 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 studied prospects for increasing their functional cooperation and for coordinating their positions during negotiations with other countries and with international organizations.

The CARICOM Heads of Government and the Vice President of Suriname met with the Presidents of the Group of Three in Port of Spain, in Trinidad and Tobago. There they endorsed a Plan of Action intended to increase the economic, political and cultural relations between the two groups of countries. In addition, they issued another declaration on trade integration in order to promote a larger economic area.

Colombia, in turn, opened negotiations in 1993 with CARICOM to create a broader economic area. These negotiations finally led to the signing of a Free Trade Agreement between Colombia and CARICOM on 24 July 1994 in Cartagena, Colombia. The agreement is temporarily skewed in favour of the Caribbean states in that it gives them ample time to implement tariff reduction. Colombia is set to begin reducing tariffs in January 1995; in contrast, the Caribbean states will only start to implement their programme from the fourth year. The agreement provides for the reduction of tariffs on 600 products. Reciprocal trade between Colombia and the CARICOM countries barely amounts to US\$ 100 million at present. The size of the Caribbean market is more than US\$ 35 billion, of which US\$ 20 billion is accounted for by manufactures.

On this occasion, the Convention establishing the Association of Caribbean States was also signed. The Association of Caribbean States comprises 25 countries and 12 territories, in principle encompassing all the independent states in the Caribbean sea basin, the countries of the Central American Isthmus, the island communities of the French West Indies and the Netherlands Antilles, Colombia, Mexico and Venezuela.^{3/} The Association, which represents a population of 200 million people and a Gross Domestic Product of US\$ 500 billion, serves as a forum for joint discussion, cooperation and concerted action among these states which are located close to one another, and share many economic interests, as well as a common historical and cultural past. The purpose of the Association is to harness the region's collective capabilities in order to achieve sustainable development in the cultural, economic, social, scientific and technological spheres through interaction between member countries and with other states, the promotion of a broad economic area for trade and investment, cooperation in the broadest sense, including functional cooperation, and coordination of positions in international forums. Discussions are presently taking place regarding a suitable location for the headquarters of the Association, the manner in which budget contributions will be allocated and the nature of the work programme.

^{3/} The full members of the Association are Antigua and Barbuda, Bahamas, Barbados, Belize, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, St. Kitts and Nevis, St. Lucia, St. Vincent/Grenadines, Suriname, Trinidad and Tobago and Venezuela. The associate members are: Anguilla, Bermuda, British Virgin Islands, Cayman Islands, France (for Guadeloupe, French Guiana and Martinique) Montserrat, Netherlands (for Aruba and the Netherlands Antilles) Puerto Rico, Turks and Caicos Islands, United States Virgin Islands.

At their Nassau Summit, in July 1993, the Heads of Government approved the establishment of a Joint CARICOM-Cuba Commission, whose primary task will be to promote closer ties in the economic, social, cultural and technological fields. The business communities in a number of CARICOM countries have expressed interest in investing in Cuba's tourism industry. However, the initiative met with the disapproval of the United States and the Central American countries. This stumbling block was overcome when Cuba was admitted as a founding member of the Association of Caribbean States.

Suriname was finally admitted as a member of CARICOM at the sixteenth inter-sessional meeting held in February 1995.

Finally, it should be noted that CARICOM countries participate in the Rio Group by sending a representative selected every three years on a rotating basis. Trinidad and Tobago is fulfilling that role until 1996.