CARICOM:
Externally Vulnerable Regional Economic Integration

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The Caribbean Common Market (Caricom) is an example of externally vulnerable integration. The economic development of the member states of Caricom, including the process of integration, has been dependent on and influenced to a considerable extent by external factors. For example, the level of interregional trade reflects much more the impact of external factors than the integration movement itself. This externally vulnerable economic integration process now confronts the dilemma of whether Caricom can further economic development. If the answer is in the affirmative, then it raises the question of whether to deepen or to widen the process. Further deepening among microeconomies will not produce the results intended and developments in the global economy and in the hemisphere suggest that widening is necessary.

Section I begins with an overview of the origins and objectives of Caricom. Then the structure and economic performance of Caricom member states are reviewed, complemented by an outline of the main features of intra-Caricom trade. The section culminates with a description of the current state of integration. Section II examines the current external context in which Caricom must operate and to which it must adapt, highlighting the implications of the North American Free Trade Agreement (NAFTA). Against this background, Section III analyzes the future of Caricom, focusing on the issues that derive from the dilemma of widening versus deepening. The policy imperatives are discussed in Section IV.

preference to an approach emphasizing the integration of production[2] by planned regional industrial programming.[3]

Objectives

The broad objectives of Caricom are:

1. To promote economic development, which was viewed as possible only if the degree of external dependence was reduced and some measure of economic sovereignty was reclaimed. The process of economic development necessarily involved structural transformation by industrialization, which would be made more viable by the increased size of the regional market and the efficiency generated by attaining economies of scale.

2. To increase bargaining power in negotiations in multilateral forums and bilateral negotiations, particularly with industrialized countries.

3. To achieve these goals while ensuring an equitable distribution of gains, or at least avoiding economic polarization between the more developed and the less developed states.

Structure of Caricom Economies

The Caribbean countries consist of very small economies, many of which are microstates, the smallest being Montserrat, with a population of 12,000 in an area of 103 sq. km. In fact, the total combined population of the thirteen countries is just under 6 million, spread over 270,000 sq. km. The gross domestic product (GDP) of the region is just over US$12 billion. For a statistical profile of Caricom member countries see Table 7.1. These economies are so minute that they have to be differentiated from the conventional concept of small economy, such as Singapore, with a GDP of $28 billion, or Hong Kong, with a population of 5.4 million. In these circumstances, small size is an additional constraint to development, which is reflected in the size of the market, narrow range of resources, and lack of economies of scale.

The member states of Caricom are individually and collectively vulnerable to external events. External vulnerability derives from economies with the following structural characteristics: (1) the small size; (2) the high degree of openness; e.g., trade/GDP ratio of over 70 percent and the import/GDP ratio ranging between 40–75 percent for most countries (see Table 7.1);

(3) concentration on a few exports—in most instances, primary products such as bananas, sugar, and citrus or raw materials such as bauxite and oil; (4) dependency on a few extraregional markets, particularly industrialized countries such as the United States, which absorbed 43 percent of the region's exports and supplied 42 percent of its imports in 1990.[4] The Caribbean's trade and capital flows, both foreign investment and loans (concessional and commercial), are concentrated on the United States. Over 50 percent of the region's trade is with the United States, much of it under the Caribbean Basin Initiative (CBI). Most of the exports are marketed to the United States, Canada, and the European Economic Community (EEC) under preferential arrangements in the CBI, Canadian-Caribbean Agreements (Caribcan), and the Lômé Convention.

Economic Performance of Member States

The economies of Caricom member states experienced high and sustained growth in the 1960s, largely as a result of favorable market conditions for the principal exports, at a time when the world economy and industrialized countries were experiencing sustained economic growth. During the 1970s, a combination of adverse external developments affecting both export and import prices and internal economic management problems, caused a marked slowdown in economic growth, particularly in Jamaica, after the mid-1970s. The 1980s saw many economies in the region growing at very low rates, or experiencing contraction. Growth rates during 1983 to 1988 reveal slow growth or contraction in three of the larger, more developed economies. The United Nations Economic Commission for Latin America and the Caribbean (ECLAC) estimates that the average growth rate of real GDP was 0.9 percent for Jamaica, -1.4 percent for Guyana, and -3.0 percent for Trinidad and Tobago.[5] In fact, GDP per capita, at the end of the decade, was lower in some countries than it was in the late 1970s. Severe balance-of-payment crises and subsequent stabilization measures substantially reduced import capacity, which in turn led to a reduction in growth and export production. Bouts of high inflation, shortages of foreign exchange, and sizable exchange-rate depreciation compounded and aggravated the prevailing economic difficulties. Intraregional trade declined sharply and only began to

Table 7.2
Exports to Caricom as a Percentage of Total Exports, 1967–1990

Country	1967	1974	1980	1990
Barbados	6.5	6.7	23.6	31.3
Guyana	23.0	13.5	13.2	6.1
Jamaica	12.3	14.2	5.9	6.2
Trinidad and Tobago	51.6	61.9	11.3	13.0
Antigua			31.5[a]	66.4
Belize			6.1	8.0
Dominica			61.5	25.2
Grenada			11.1	22.6
Montserrat			60.6	33.8
St. Kitts			18.2	18.3
St. Lucia			38.2	18.1
St. Vincent			43.3	31.6

[a] 1984

Source: *The Commonwealth Caribbean: The Integration Experience* (Baltimore: Johns Hopkins University Press, for the World Bank, 1978), 30, and *Statistical Profile of the Caribbean Community (Caricom)* (Black Rock, Barbados: The West Indian Commission, 1992), 4–5.

intraregional trade stalled during the 1970s and contracted sharply during the 1980s. Between 1980 and 1990, Caricom declined in importance as both an export and import market. Exports to Caricom as a share of total exports declined for six countries, was virtually unchanged for three others, and increased in only three countries (see Table 7.2).

Caricom as a source of imports has declined significantly, as its share in total exports has decreased for eleven of the twelve member states (see Table 7.3). Intraregional exports as a share of total merchandise exports (excluding petroleum) have fluctuated between 5 and 8 percent since the integration of Caricom.[7] During the 1980s, petroleum accounted for 20 to 60 percent of intra-regional exports,[8] which means that non-petroleum exports within Caricom are extremely small. Since agricultural products

eignty; (4) policy disparities due to widely different political philosophies and economic development strategies; (5) adverse impact of external shocks such as oil prices and declining commodity prices; (6) protectionist policies and the use of exchange controls; (7) exchange rate volatility; and (8) the contraction of import demand as a result of adjustment and debt.

Current State of Integration

At their tenth meeting, held in Grenada in July 1989, the heads of government of the Caribbean Community adopted the Grand Anse Declaration and Work Programme for the Advancement of the Integration Movement. More specifically, they agreed to establish a common market as early as possible. They decided to:

(1) establish a schedule for implementation of the three Common Market Instruments required by the Treaty of Chaguaramas: the Common External Tariff; the Rules of Origin; and a Harmonized Scheme of Fiscal Incentives;
(2) sign the agreement establishing the Caricom Industrial Programming Scheme (CIPS);
(3) enact the necessary legislation to implement the CIPS and the Caricom Enterprise Regime (CER);
(4) liberalize the movement of capital, starting with cross-listing and trading of securities on existing stock exchanges;
(5) commence technical studies on the establishment of a regional equity-venture capital fund;
(6) intensify consultation and cooperation on monetary, financial, and exchange rate policies;
(7) increase policy coordination at the macroeconomic, sectoral, and project levels;
(8) implement arrangements for the free movement of skilled and professional personnel;
(9) re-examine the ideas of a system of air and sea carriers; and
(10) strengthen collective effort at joint overseas representation and in international negotiations.

by a facility enabling the authorities responsible for the negotiations to draw, if need be, on the technical skills scattered throughout the region.

Caricom is not a common market or a customs union, as the CET has not yet been implemented. The main objective of the CET is to provide regional protection to agriculture and industry in order to develop a productive structure that may compete in third markets. The CET, and the rules of origin, are aimed at expanding industrialization by means of increased utilization of input available in the region. The original intention of the external policy, using the Common Protective Policy, was to provide a level of protection within the common market for companies producing in that market. However, this policy orientation was changed in 1984, when the Caricom heads of government agreed that: (a) policy will aim at a greater outward orientation of the manufacturing sector; (b) the CET should replace, over a phased period, quantitative restrictions as the principal instrument of protection in the Caribbean Common Market; and (c) that the Secretariat should undertake the necessary technical work to substitute CET rates for national quantitative restrictions against third countries. The revised CET, with a classification structure based on the Harmonized Commodity Description and Coding system (HS), and the changes in the rules of origin, became effective January 1, 1991. To date, nine of the twelve member countries have implemented the CET.

Participants at the Fourth Inter-Sessional Meeting of the Conference of Heads of Government of the Caribbean Community, held March 22–23, 1993, made three major decisions: (a) the revised CET and the Rules of Origin would be introduced by June 30, 1993, and all remaining barriers to intraregional trade should also be removed by that date, which is preparatory to the creation of a single market; (b) the establishment of the Council of Governors of the Central Banks of the Caribbean Community, which represents a staged approach to the creation of a monetary union; and (c) the negotiations toward establishing a Caribbean Investment Fund reached an advanced stage and it was agreed that member states would take all the necessary measures to facilitate the completion of the process of establishing the fund at the earliest possible date.

world economy fractured into national economies. Transnational corporate integration impels multicountry market integration, initially in a regional context, both as ex-post economic rationalization and as a defense by the nation-state against the inevitable relinquishing of the vestiges of economic sovereignty.

Trade Blocs

The transition to a world market is taking place by way of national economies merging and amalgamating into trade blocs. Trade blocs are created both by deliberate policies of integration among groups of like-minded governments and by the unplanned concentration of trade and investment among countries, often creating a commonality of interest. The formalization of the EEC as a common market added impetus to the nascent trend toward economic blocs by setting in motion a defensive, reactive response to counter this development by forming rival blocs.

Stalled Multilateral Trade Liberalization

The difficulties experienced in completing the prolonged negotiations of the Uruguay Round of the General Agreement on Trade and Tariffs (GATT) continue unabated. The Round could end in disarray, or fail to resolve key issues of the agenda. A collapse or partial resolution could spark an escalation of protectionism, characterized by an acceleration of countries forming trade blocs. It also is possible that the disintegration of GATT negotiations could provoke a proliferation of bilateral trade arrangements and intensify the tendency to form various regional trade arrangements, which by virtue of a common external tariff may raise protectionist barriers to exports from other groups and countries.

Revival of Regionalism in the Western Hemisphere

There has been a resurgence of interest in regional trade liberalization, regional integration, and cooperation in the Caribbean and Latin America.[9] This momentum actually preceded the U.S. Enterprise for the Americas Initiative; the enterprise did not initiate these developments, but rather complemented them, and may have added a catalyst to accelerate the process. This resurgence of interest in regional trade arrangements and regional

because it proposes to address the major economic problems of Latin America and the Caribbean. It was launched at the culmination of a decade of economic decline in that region. The NAFTA, recently concluded between the United States, Canada, and Mexico, will constitute the first building block of the trade component of the Enterprise of the Americas Initiative.

The implementation of NAFTA would put CBI countries at a disadvantage in terms of access to U.S. markets, likely resulting in the following:

(1) The elimination of quota and phase-out of tariffs on Mexican products could cause a diversion of U.S. demand from suppliers in CBI countries to firms in Mexico, thus reducing CBI exports. This would inadvertently create a situation in which Mexico—which already has inexpensive labor and energy, lower transportation costs, and economies of scale—would now have a further advantage over the CBI countries.

(2) Diversion of investment is already evident; in the last two years there has been a pause in regional investment, as investors waited to evaluate the NAFTA provisions. A report of the U.S. International Trade Commission (USITC) concluded that "NAFTA will introduce incentives that will tend to favor apparel investment shifts away from the Caribbean Basin Economic Recovery Act countries to Mexico."[10]

(3) There is danger that existing productive capacity will relocate or close, particularly in "footloose" industries that can easily be relocated.

(4) It would be ironic if 110,000 trade-related jobs in the United States, which are maintained by exports to the CBI region, were to be lost as a result of investment diversion and trade contraction resulting from the erosion of the CBI caused by NAFTA. Trade and investment diversion could stymie the growth momentum in the Caribbean, marginalizing the region from the economic dynamic in its main export market—the United States. However, this development would be prevented if appropriate policy measures were adopted by the United States.

Caricom's Response to NAFTA

The governments of Caricom countries need to lobby for nondiscriminatory access to the U.S. market to ensure a level

namely, trade in goods and services, investment, and intellectual property rights. The form, specifics, and pace of reciprocity should be worked out between the United States and the CBI countries through the institutional mechanism of the Trade and Investment Framework Agreements and the Caricom-U.S. Joint Council on Trade and Investment.

III. The Future of Caricom: Deepening Versus Widening

If Caricom is to achieve all its aims—in particular economic development and concomitant structural transformation—it must resolve the issue of deepening versus widening. Regional integration was superimposed on the economic structure of Caribbean economies in a purposeful attempt to restructure these economies, reduce external dependency, internalize the dynamic of economic growth, and change the role of the Caricom countries in the international division of labor. However, apart from the manufacturing sector, Caricom has a tenuous or peripheral connection to the function and performance of Caribbean economies. It is usually asserted that in order for Caricom to have more impact on trade and economic growth, it is necessary to deepen the integration process. However, deepening seems to hold little prospect of reducing vulnerability to external events, given the small size of the market, even after full integration, and also because of the absence of corporate development in production integration. In addition, the factors that have inhibited deepening in the past persist in the present, and optimism is unwarranted. Some of the benefits to be attained by deepening may be more forthcoming through judicious widening. Therefore, widening should become a priority and should no longer await the completion or advancement of deepening, because deepening will not reduce vulnerability to external events.

There has been a strong resistance to widening Caricom, despite repeated expressions of interest and formal requests by non-English–speaking Caribbean countries. Surinam was granted observer status in CARIFTA in March 1973 and subsequently participated in some ministerial meetings. In 1982 it applied for observer status in the heads of government meetings, the Common Market Council, and the organs of the Caribbean Community. In

Deepening

While the priority should be on widening, this must be accompanied by deepening, two important aspects of which are:

(1) Intraregional corporate integration. Caricom must prepare a strategy for its survival and development in the new world economic and political context. This depends not only on the policies of governments, but on the readiness and ability of the private sector to compete effectively. The expansion of exports will depend on a combination of comparative and competitive advantages. The state of preparedness between sectors varies considerably, reflecting economic and psychological factors. The fact that activities such as bauxite exports and tourism are competitive in price and quality proves the capability to compete in the global marketplace.

Whether the Caribbean economies are able to take advantage of an enlarged regional market to expand exports depends not only on the policies of governments, but on the readiness and ability of the private sector to compete effectively. Even where Caribbean economies have a comparative advantage it could, as in the past, be offset by the lack of a competitive advantage by locally owned firms. In the larger, more advanced economies such as Jamaica and Trinidad and Tobago, some firms and financial institutions have become Caribbean multinationals or are branching into the United States, Great Britain, and Cuba, and there are some entrepreneurs whose horizons are hemispheric and even global. In fact, it is the outgrowth of the national market and the process of corporate integration which, like in the EEC, is driving the resurgence of regional trade liberalization, including that of Caricom.

In the microeconomies, the private sector firms are economic minutiae, family owned and managed, and almost wholly and profitably confined to commerce rather than production—except in the traditional agricultural exports, such as bananas. Even a trans-island merger movement would not make them viable, but there is no reason why they cannot be worthwhile joint-venture partners with foreign investors. Apart from infrastructure, all other inputs including technology can be purchased. The difficulties are not insurmountable, but there must be both a recognition and a willingness. This, like every process of adjustment, begins with a change of mind, outlook, and attitude.

(b) Integration should mean increased mobility of funds between individual, national capital markets and could thereby reduce the outflow of capital funds from the region, including capital flight. Some overseas placement of Caribbean funds may have occurred because of the lack of intraregional mobility of funds, rather than because of better investment opportunities outside the region. This is particularly the case with financial institutions in the less developed countries where at present these institutions are unable to obtain local securities of a sufficiently wide variety to enable them to operate a balanced portfolio.

(c) It would permit financial institutions to undertake a larger volume of business and so achieve economies of scale.

(d) It would allow financial institutions to diversify their asset portfolios by increasing and broadening their options by allowing them to choose from securities available in the region rather than just national securities.

(e) Capital market integration will improve the process of financial intermediation, offering a wider variety of instruments and institutions. Better financial intermediation would generate a larger volume of savings, since a multiplicity of savings media in the form of different types of financial instruments and service help to increase savings.

Widening

Expanding Caricom or joining a major trade bloc. Developing economies, and in particular small countries, need a liberal multilateral trading system because they are highly dependent on trade. Given the type of products exported by small developing economies, access to the markets of industrialized countries is necessary for their economic survival. The emergence of trade blocs reduces the shift away from preferential access and the lack of progress in the Uruguay Round of the GATT, representing the collapse of a rule-based multilateral trade regime. This forces small developing countries to evaluate very carefully the costs of exclusion from participation in one or more trade blocs. For the Caricom countries, the question is whether it can continue to have membership in CBI, Caribcan, and Lômé. Would participation in the Lômé Convention and NAFTA be compatible? What is the relationship of NAFTA and the Enterprise for the Americas

tive members of NAFTA—and 7 percent to the rest of the hemisphere). For Caricom countries, about one-half of their exports go to the United States. The rate of growth of U.S. exports to the hemisphere has far exceeded the growth of exports to the rest of the world. Similarly, trade within the hemisphere has grown much more rapidly for Latin American countries than trade with the rest of the world.

If Caricom has the option of integrating with a larger trade bloc, should the Caricom countries proceed as individual countries, or should there be collective participation? If collective participation is available and feasible given the differences in readiness, what collection of countries should proceed? Should this be Caricom or some wider version of the Caribbean? Collective participation seems logical, given that it would increase the negotiating leverage of Caricom. However, it may prove difficult because differences in readiness could mean moving at the pace of the country that is least willing or able.

Accommodating developmental heterogeneity. How are the persistent differences in levels of economic development to be accommodated within Caricom and in any wider integration group, particularly where developed countries are involved? Within Caricom, the less developed countries are given concessions in the form of longer adjustment periods and less stringent rules of origin. Indeed, polarization has not been a divisive problem among Caricom countries, as per-capita income for many of the so-called less developed countries compares favorably with the supposedly more developed. However, the question of different levels of development is of paramount importance in Caricom's participation in CBI, Caribcan, and the Lômé Convention. It will also assume considerable importance if Caricom extends membership to countries like the Dominican Republic and Venezuela, or if Caricom countries opt to join regional groupings, which include larger or more developed economies. This was one of the most contentious issues in negotiating framework agreements, even though they are nonbinding, committing the signatories only to further dialogue. That difference of outlook was resolved in the case of the U.S.-Caricom Framework Agreement by the term "undiversified economies," which tried to grapple with the fact that because of the very narrow range of production and exports, Caribbean economies have a structural vulnerability to external

for differences in the levels of development. The notion of differential treatment is deeply entrenched in the smaller, less developed countries, which receive longer adjustment periods even within Caricom. It will be difficult to disabuse these countries of this tenet of their philosophy of development, but few will oppose the concept of phasing out differences in obligations over a long period, perhaps twenty years. Clearly, at the outset of an FTA it would be difficult to establish special and differential treatment in perpetuity. Therefore, specific criteria for graduation to nondiscriminatory status with mutuality of concessions will be needed. The United States has both espoused "graduation" and practiced it by disqualifying certain advanced developing countries from the Generalized System of Preferences.

Should reciprocity be complete or asymmetrical, partial or "relative," and should it commence immediately or be phased in over a period of years? The Caribbean's apprehension of immediate and complete reciprocity derives less from the inability to undertake policy measures and institutional changes, but more from the social and economic costs of structural adjustment. This is a valid concern because in these economies, structural adjustment implies both resource allocation from declining to emerging or growing sectors, and resource creation for the installment of new or upgraded productive capacity. There are risks and difficulties involved in improving quality, quantity, and price in order to survive and compete in the vast hemispheric market with a range of competitors, which include some of the giant multinational corporations, whose assets and sales dwarf the GDP of the combined Caribbean countries. Daunting as this appears, it can be accomplished, because reducing the production process into smaller, discrete processes provides opportunities, and there are specialized niches in the international division of labor that can be filled by relatively small-scale operations.

Increasing collective bargaining power. Regional integration was advocated as a means of enhancing economic sovereignty through collective action in bargaining with the industrialized countries, in multilateral forums such as GATT and with the multilateral corporations. Many in the region believe that, given major changes in world trade such as Europe 1992, NAFTA, and the Uruguay Round of the GATT, Caricom needs to participate in a larger bargaining unit. Girvan regards it as "unthinkable that

effectively in the global market. Domestic economic reforms can be enhanced and brought to fruition by improved export market access for new and traditional exports. Legislative and other action should be taken to ensure that the CBI countries retain their relative advantage in the U.S. and Canadian markets in the medium term.

Export Reorientation

The process of adjustment will only commence in earnest when there is a change in attitude and outlook, when Caricom entrepreneurs dare to think the new and adventurous. For example, since the early 1950s succeeding governments have viewed the transition from underdevelopment to development as a process of industrialization, progressing from import-substitution industrialization to the export of manufactured goods. But despite protection and other government support, this transition has not taken place. Developments in the world economy and the success of the newly industrialized countries of Asia suggest this is no longer a viable strategy. Perhaps Caricom should skip the traditional development by industrialization, and pursue development by the export of services. This strategy has distinct advantages: the service sector is the fastest growing sector in world trade and in the U.S. economy, which is Caricom's largest trading partner. The jobs created would be relatively high wage and environmentally safe.

Innovative entrepreneurs must look beyond traditional economic activities and to financial services and to the new dynamic sectors in the global economy, such as microelectronics, biotechnology, telecommunications, robotics, and information. These sectors will require a work force that is more skilled, knowledge oriented, and capable of adopting new technology.[15] Management, production, and decision making will have to be "informationalized."[16]

There is no need to panic, because there are plenty of opportunities to earn foreign exchange and provide employment for Caribbean nationals. To illustrate, the high cost of health care in the United States makes it less expensive for someone to fly to the Caribbean for treatment. All operations other than open-heart

production by "creating a series of intermediate positions between national and global competitors."[19]

Improving Productivity

Entrepreneurship in Caricom exhibits very uneven development, but in some countries such as Jamaica, a new brand of entrepreneurship has emerged in recent years. Increasingly, entrepreneurs are competing in the world market and building multinational corporations by establishing overseas factories, banks, building societies, and hotels. They are demonstrating new capability, innovation, technical sophistication, and informed risk taking. However, the most difficult and most important determinant of price and quality competitiveness, of speedy response to changes in demand, and of efficient marketing and distribution is the quality of human resources. There are three aspects of the human resource dimension: entrepreneurship, management, and the productivity of workers.

Management will have to become more sophisticated, be constantly in touch with developments in international markets, and constantly update itself on new technological innovations. Caribbean managerial capacity has improved considerably and professionalism has increased in recent years. However, there is still room for improvement, and the region needs to upgrade the management capacity of the private sector by importing skilled managers and other professionals. This need not mean a completely open-door policy where foreigners, unaware of our culture and traditions, take over top managerial posts. In the short run, there are more than enough skilled West Indians overseas who, under the right circumstances, would be willing to return to the region.

The productivity of labor in the Caribbean needs to be upgraded. This has to be tackled both within the individual enterprise and in the society as a whole. Firms need to put more emphasis on vocational and on-the-job training. For the society as a whole, education will have to become the first priority; that is, the financial requirements of what is needed for a well-educated work force should be the first priority on the budgets of regional governments.

Having a well-educated work force is not necessarily going to mean spending more money, but it will require that expenditures

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