

**The Building Blocks of Successful Regional Integration:**  
**Lessons for the CSME from other regional integration schemes.**

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## Abstract

### **The Building Blocks of Successful Regional Integration: *Lessons for the CSME from other regional integration schemes.***

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**Regional Trading Blocs (RTBs)** have become quite ubiquitous, with approximately 200 of them presently operating in the world trading system. However, many of these **RTBs** are not successful in their goal of improving the **economic development** of their respective regions. Indeed, in the last three decades many **RTB's** have failed and have been dismantled. This paper seeks to identify the **socio-economic factors** which are necessary for successful regional integration. These factors have been divided by some commentators into **demand factors**, such as the potential for economic gain for each member state and **supply factors**, such as the existence of commitment institutions, for example a regional Court. This paper seeks to identify and examine the demand and supply factors for **successful regional integration** as distilled from past and existing regional integration experiences both in Latin America and in Europe. The paper will then go on to apply this learning to the **CSME**, by firstly assessing whether the requisite demand and supply conditions are met by the institutional arrangements of the **CSME**, and by suggesting ways in which the **CSME** can adopt, create or enhance the demand and supply factors which are necessary for **successful regional integration**.

## INTRODUCTION

Regional Trading Blocs are now a permanent feature of the World Trading System with 197 Regional Trading Agreements being notified to the WTO as at 10<sup>th</sup> July 2006.<sup>1</sup> By Regional Trading Blocs (RTBs) I refer to: the formation, by neighbouring territorial units, of alliances to boost economic and, subsequently, political integration through free trade areas or customs unions<sup>2</sup>. However, all of these trading arrangements are not successful and many RTBs have failed in the last few decades. The question therefore arises as to: “what are the factors necessary for the CARICOM Single Market and Economy (CSME), the latest wave in Commonwealth Caribbean integration, to be successful?” It is important to answer this question since, it is submitted, that regional economic integration in the Commonwealth Caribbean is the primary vehicle available to the region for coping with the restructuring of the global economy and the resultant erosion of preferential treatment and protected markets in the USA, Canada and Europe. Whilst these preferences have not completely disappeared – the global drive towards the reduction of tariffs and the increasing demand for reciprocity under The General Agreement on Tariffs and Trade (GATT) 1994 make it more and more difficult to peg a country’s economic survival on the “charity” of the developed nations. The Commonwealth Caribbean must face the challenges posed by globalization head-on, otherwise the region will fall into severe economic recession and the standard of living of the Caribbean people will be greatly reduced.

The discussion of the success factors for regional integration in this paper is limited to RTBs and does not necessarily apply to other types of economic trade groupings involving countries from different hemispheric regions ( Preferential Trading Arrangements in general)

The challenges facing the Caribbean region in the year 2007 are manifold. Principle among these is: the erosion of protected markets in Europe and USA through WTO rules and decisions which have curtailed the discretion of Europe and the USA to

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<sup>1</sup> WTO, 2006 NEWS ITEMS at <http://www.wto.org/english/news>

<sup>2</sup> Sungjoon Cho, “Breaking the Barrier Between Regionalism and Multilateralism: a New Perspective on Trade Regionalism”, 42 Harv. Int’l L.J. 419 at 419

favour the region in preference to other developing regions. The *EC-Bananas III*<sup>3</sup> decision is the landmark WTO case in point and one of the major issues in this case was whether the European Community (EC) could discriminate under a preferential trading arrangement (PTA) in which there were two (2) separate regimes for bananas imported into the EC: one regime for bananas originating from **traditional** African, Caribbean and Pacific Group of States (ACP) countries and another for bananas origination from **non-traditional** ACP and other countries. It was held by the Appellate Body of the WTO Dispute Settlement Mechanism that: the differential treatment of a like product based on country of origin was discriminatory and inconsistent with the requirement of GATT Article XIII:1 which provides that any prohibition or restriction on the importation of any product must be applied consistently to all WTO Members<sup>4</sup>. This GATT Article XIII contains an MFN obligation concerning the administration of quotas<sup>5</sup>.

The goal of GATT 1994 to reduce tariffs worldwide has also resulted in the erosion of CARICOM preferences, since as worldwide tariffs fall, the lower tariff CARICOM countries enjoyed on certain exports to the USA and Europe has become less of a competitive factor. Also, CARICOM countries for the most part have based their economies on primary products and services and the profitability of these exports has declined rapidly in the face of worldwide technological advances which place a higher premium on technologically advanced exports. Although there has been a drive to pursue industrialization in the region since the 1950s, this style of industrialization faces serious external threats since the Region has not always been able to keep abreast with developments in international technology and manufacturing processes which therefore limits the competitiveness of CARICOM manufactured goods on the world market<sup>6</sup>. Downes has suggested that “Caribbean countries must seek to develop a ‘new

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<sup>3</sup> Appellate Body Report, European Communities- Regime for the Importation, Sale and Distribution of Bananas(‘ EC – Bananas III’), WT/DS27/AB/R, adopted 25 September 1997, DSR 1997:II, 591.

<sup>4</sup> Michael J. Trebilcock and Robert Howse, *The Regulation of International Trade*, 3<sup>rd</sup> edn., (London: Routledge, 2005) at pp 76-80.

<sup>5</sup> *Ibid* p. 78

<sup>6</sup> Andrew S. Downes, “Arthur Lewis and Industrial Development in the Caribbean: An Assessment”, June 2004, presented at a conference on “*The Lewis Model after 50 years: Assessing Sir Arthur Lewis’ Contribution to Development Economics and Policy*”, University of Manchester July 6-7, 2004.

manufacturing' strategy which would include the use of modern technology, skilled persons and a focus on 'world class' standards and greater sectoral linkages.<sup>7</sup>"

The debt burden of many CARICOM members is also quite high and this has impacted upon the regional governments' ability to invest into technological advances in the manufacturing sector. These economic factors are coupled with political and international relations (IR) factors such as the vulnerability of the region to world crises (such as the recent September 11<sup>th</sup> 2001 attacks in the USA which affected the region's tourism industry) and the increase in crude oil prices following the ongoing unrest in the Middle East. Finally, the growth of RTB's all over the world have made it more difficult for countries which do not belong to a trading bloc to compete effectively on the world market<sup>8</sup>.

The result of all these external factors (economic, political and IR in nature) is that regionalism is no longer a lofty ideal for the CARICOM countries but a necessity in order to adapt and prosper in today's world trading system. The CSME, if it functions correctly will assist individual members in cushioning the shocks of the changes in the external trading system. It is submitted that the increased economies of scale and scope offered by regional integration would assist in accelerating the industrial development in the region. It can also be argued that the bargaining power of individual nations will be enhanced as we bargain in the WTO as a region, and this is already happening through the work of the Regional Negotiating Machinery. The CSME therefore, offers the countries of the region a more potent voice in the world arena<sup>9</sup>.

The fact is that most of our leaders have recognized the importance of and need for integration with fourteen (14) nations being signatories to the Treaty of Chaguaramas<sup>10</sup> and twelve (12) now engage in the process of implementation of the CARICOM Single Market (CSM) in 2006 (Barbados, Belize, Jamaica, Guyana,

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<sup>7</sup> Ibid, pp. 20-21.

<sup>8</sup> Jaime de Melo, and Arvind Panagariya, 1993 Introduction to *New Dimensions in Regional Integration*, eds.- Jaime de Melo and Arvind Panagariya, 3-21. (Cambridge: Cambridge University Press) .

<sup>9</sup> Inter-American Development Bank, Integration and Regional Programs Department *CARICOM Report No. 2*, Institute for the Integration of Latin America and the Caribbean ( INTAL) Report Series, August 2005.

<sup>10</sup> These nations are: Antigua & Barbuda, the Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts & Nevis, St. Lucia, St. Vincent & the Grenadines, Suriname and Trinidad & Tobago.

Suriname, Trinidad and Tobago implemented the CSM on January 1<sup>st</sup> 2006 and Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia and St Vincent and the Grenadines implemented the CSM on July 3<sup>rd</sup> 2006). However, this political willingness of the region's leaders is not enough to ensure successful integration. Rather, successful regional integration requires a combination of market forces and institutional forces. The market forces can be termed demand factors<sup>11</sup>. On the other hand, the institutional forces can be termed supply factors and these include the existence of a strong "regional leader" to overcome "collective action problems" as well as the existence of "commitment institutions" such as Courts to regulate and promote integration<sup>12</sup>. The rest of this paper will discuss the demand and supply factors necessary for successful development of RTBs in general and then apply this learning to the CSME.

### **DEMAND FACTORS:**

The potential for economic growth is crucial for the success of any economic integration arrangement. It is this potential for economic gain which will spur member states to relinquish some of their economic and political sovereignty in favour of a RTB. At this point it would be useful to examine **how** a RTB can increase the potential for economic growth in individual members. Firstly, an RTB can assist firms in the region in achieving economies of scale in production since the larger market created by the single economic space facilitates larger quantities of a good being produced. As production increases, the cost of producing each individual unit of the product decreases and the firm therefore realizes greater profit. This increased profitability should also impact positively on the economies in the host country through the multiplier and circular flow effects.

Secondly, the RTB, by providing a larger market, allows specialization within a region according to each country's comparative advantage. However, this benefit may not materialize in practice since, for political reasons, countries may not be willing to forgo development of a product or sector in favour of their neighbour since they fear too great a dependency on the neighbour for the product in question or the political leaders may see no reason to deprive their country of an opportunity for a profitable economic

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<sup>11</sup> Walter Mattli, *The Logic of Regional Integration: Europe and Beyond*, (Cambridge: Cambridge University Press, 1999) at 41.

<sup>12</sup> *Ibid.*

venture in favour of a neighbouring territory. Thus, “collective action problems” and “national sovereignty issues” may often hinder regional industrialization schemes. This has been the experience in the Caribbean region where despite early suggestions by economists such as Sir Arthur Lewis to pursue industrialization as a regional effort, the individual territories each sought to develop their own nascent national industries<sup>13</sup>. However, it is submitted that a shift toward regional industrialization is what is called for in today’s global economic climate.

Thirdly, the RTB will create economic prosperity for the region and for member countries if the overall trade creation effects outweigh the trade diversionary effects. Trade diversion may arise since goods produced within the RTB are not subject to a tariff, whilst similar goods produced outside of the RTB are subject to a tariff. If a member country’s goods are cheaper due to the fact that they are not taxed and not because they are more efficiently produced, then this may create trade diversion. Outside goods which would have been preferred by consumers in the market have been replaced by those goods from member countries, solely due to the fact that tariffs between member countries have been eliminated.

Trade diversion can also have deleterious effects on the member country that imports the products since governments lose revenue from tariffs that would have been gained had the goods been imported from non-member countries. However, the exporting country within the RTB gains since their goods are being consumed more than before the RTB was formed. In the final analysis, if the overall trade creating effects of the RTB outweigh the trade diversionary effects then the RTB would still be desirable. But unfortunately this is not always the case and some of the criticisms of RTBs as being trade diversionary are well founded<sup>14</sup>. In fact recent evidence suggests that trade diversion can be significant even when regional integration is accompanied by external liberalization<sup>15</sup>.

The challenge then is to design a so called “open RTB” which still allows goods from outside the RTB to compete. Admittedly, it would be harder for outside goods to

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<sup>13</sup> Downes, *supra* n. 6 at pp. 17-18.

<sup>14</sup> See Jadish Bhagwati, “Regionalism and Multilateralism: an overview”, in De Melo and Panagariya *supra* n. 8 at p. 22.

<sup>15</sup> Maurice Schiff and L. Alan Winters, *Regional Integration and Development*, ( Washington: World Bank, 2003) at 212.

compete with goods produced within the RTB but this problem may be surmounted by the formation of bilateral deals with other RTBs or with other countries.

*The Potential for Greater Economic Gain for Members than can be achieved through unilateral trade:*

Mattli asserts that the essential demand condition for successful regional integration is that there be a greater potential for economic gain for each member of the RTB under the regional model than by utilizing unilateral efforts in the world trading market<sup>16</sup>. It seems that potential for economic expansion through integration will always exist in theory for the reasons outlined above; but whether this potential is ever actualized depends on the presence of a number of factors, the key ones being:

- (a) The absorptive capacity of increased intra regional trade in the RTB.
- (b) Complementarity in production and trade flows among the countries in the RTB.

In the European Union (EU) the above factors were satisfied and this created the political motivation to seek deeper economic integration, even at the expense of national sovereignty over key economic sectors. The situation in Europe can be contrasted with the formation of the Latin American Free Trade Association (LAFTA) which was established in 1960 by the Treaty of Montevideo which was signed by Argentina, Brazil, Chile, Mexico, Paraguay, Peru and Uruguay with Ecuador, Columbia, Venezuela and Mexico joining later. The signatory states expressed their intention to create a Latin American common market. One of the rationales for creating LAFTA was to counteract the predicted effects of the formation of the European Community, which it was thought, would greatly reduce Europe's import of Latin American goods and thus cause economic hardship to the region<sup>17</sup>. The framers of LAFTA thought that the trade lost to Europe could be supplemented by intra-regional trade. However, the initial damage to Latin American exports to Europe arising from the establishment of the European Community (EC), was reversed very quickly and the loss of markets that was feared did not materialize. Secondly, intra-regional trade did not grow as predicted; in fact it began to

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<sup>16</sup> Mattli, supra n. 11, chp 3.

<sup>17</sup> *Ibid.*, pp 140-141.



decline<sup>18</sup>. The economic motivation for sustaining the common market was therefore not present and LAFTA was replaced in 1980 by the Latin American Integration Association (LAIA) which was less ambitious in its outlook since it did not seek to form a common market but simply to reduce tariffs on selected goods.

*Pressure from Regional Corporations as an Impetus for Political Change:*

The potential for economic gain for the nation as a whole may also translate into potential economic gains for individual firms, since integration provides a larger market for them to export their goods. According to Mattli, this has been the experience of the European Community where the potential for economic gain (through an enlarged market) provided the impetus for corporate actors within the Community to lobby their governments to make the changes necessary to effect deeper political and economic integration (through the various governments to living up to their European Community (EC) commitments). Indeed, Mattli noted that, lobbying by large corporations was essential in transforming the EU Treaty from a Treaty binding on nations, to one which binds **all** legal persons and entities, both public and private<sup>19</sup>.

These corporations also realized that uniformity in the application of EC law would improve their ability to compete fairly with other corporations in other member states. These corporations were motivated by their belief that the EC proposals for deeper integration would create greater economies of scale and thus the potential for increased profits. They therefore lobbied their various governments to implement the paper commitments in the Treaty of Rome<sup>20</sup>. Also, many of the large corporations in the EC came together to form the European Round Table which sought, *inter alia*, to lower transaction costs by harmonization of economic and monetary policies and legislation, setting of uniform standards, promoting the free flow of people, information and ideas as well as dismantling border restrictions on the flow of goods<sup>21</sup>. Indeed, without these pressures from corporate actors in the various EC territories there may have been greater

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<sup>18</sup> *Ibid.*, pp 146- 147.

<sup>19</sup> *Ibid* pp 73-74.

<sup>20</sup> There were two treaties signed in Rome by Germany, Belgium, France, Italy, Luxembourg, the Netherlands Rome signed on 25 March 1957

<sup>21</sup> Mattli, *supra* n.11 p 78.

delay in the implementation of the EC initiatives. Thus, the demand by member states for improved economic performance and the demand by firms for increased profits worked together to assist in the establishment and development of the EC.

Though there is no concrete evidence of this, it may be safe to assume that the corporate actors at the time LAFTA was formed did not sufficiently lobby their governments to take the steps necessary to sustain this early attempt at integration between Argentina, Brazil, Chile, Mexico, Paraguay, Peru, Uruguay, Ecuador, Columbia, Venezuela and Mexico.

Francesco Duina asserts that the movement of companies beyond national borders was already occurring before the proliferation of RTB's due to new technological advances and the lower costs of transportation and communication and the RTB therefore crystallized an economic reality already in place, by supplying the institutional framework for increases in intra-regional trade<sup>22</sup>. Thus, Duina like Mattli, recognized the role of corporate pressure in fostering regional institutional arrangements in order to facilitate the continued growth of intra regional trade. He notes that the growth in and strength of intra-regional trade was a key contributing factor to the formation of NAFTA and Mercosur<sup>23</sup>.

#### *Lack of Complementarity in Trade Flows:*

The potential for economic gain will also be very limited if the countries involved in the regional integration agreement have overlapping production and trade flows. Overlapping trade flows refer to the scenario where the RTB members produce similar goods and export these goods to same or similar markets. This overlap in the kind of goods produced and/or the markets for the goods may affect the potential for economic gain for each country in the RTB in two ways:

- (a) Firstly, the prospects for intra-regional trade will be reduced if all members are producing the same goods;
- (b) Secondly, a RTB may result in some members capturing a greater share of the external market at the expense of other smaller/weaker members.

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<sup>22</sup> Francesco Duina, *The Social Construction of Free Trade,: The European Union, NAFTA, and MERCOSUR* (Princeton and Oxford: Princeton University Press, 2006) at pp 31-32.

<sup>23</sup> *Ibid*

This view is supported by Trebilcock and Howse who noted that:

*“ .....many actual or potential regional trading blocs offer very small prospects for intra-regional trade expansion, even setting aside their effects on external trade. This is true for many actual or potential trading blocs in Africa, Latin America, the South Pacific and the Caribbean, where similarity of natural endowments often sharply limits the potential mutual gains from trade,.....”<sup>24</sup>”*

Mattli asserts that the presence of overlapping production or the lack of complementary trade flows was one of the major reasons for the demise of the Andean Common Market ( also called the Andean Pact) which began in 1969 with Bolivia, Chile, Columbia, Peru as the original members. Ecuador and Venezuela joining later in 1973. Because of the overlapping production the potential for trade creation was very limited since all the countries involved were competing to export the same products (agricultural products and mineral extracts) to the same countries or regions ( the USA and Europe). The potential for economic gain was therefore quite restricted and was not enough to sustain the demand for deepened economic integration<sup>25</sup>. Nevertheless, efforts at Andean integration were revived in 1996 with the creation of the Andean Community. This new Andean Community has been more successful than the first, since the goods/services that are being produced by its member countries have diversified due to industrialization and globalization.

Although the proposition put forward by Mattli and others, that complementary trade flows are necessary for successful regional integration, the empirical evidence on the performance of existing regional groupings such as CARICOM and MERCOSUR seems to go against it. Indeed, MERCOSUR is a grouping between neighbouring countries all of which export primarily agricultural and minerals products (though it should be noted that Brazil and Argentina also have significant manufacturing sectors. Despite this overlap in production, since Mercosur was formed intra-regional trade has increased dramatically (intra-Mercosur trade tripled in the 1990-1995 period)<sup>26</sup>. Extra-regional trade has also increased but to a lesser extent than intra-regional trade. It is

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<sup>24</sup> Trebilcock and Howse, supra n. 4 at p. 197.

<sup>25</sup> Mattli supra n. 11 at p 148

<sup>26</sup> Paul Demaret, Jean-Francois Bellis & Gonzalo Garcia Jimenez, *Regionalism and Multilateralism after the Uruguay Round: Convergence, Divergence and Interaction*, (Brussels: European Interuniversity Press,1997) at p. 167

submitted therefore that the overlap in outputs can be overcome as the integration process deepens. One hypothesis is that: as political and economic integration deepens, the member states naturally reduce production of goods that their neighbour has a comparative advantage in producing and increases production of those that they have a greater comparative advantage in, as compared to their neighbours. Thus, it is my view that regional integration may be the catalyst for adaptation and specialization within a region.

However, the drawback to this adaptation and specialization is that the countries with the better economies or the more abundant natural resources tend to benefit more from the regional grouping, as their exports to the region tend to dominate the intra-regional trade and they also take up a larger share of the extra-regional exports. This is true of Brazil in the case of Mercosur ( In 2003 -2005, Brazilian sales to its partners rose cumulatively by 254%, ten times the rate of imports (25.6%).<sup>27</sup> The same is true for Trinidad & Tobago in the case of CARICOM ( Trinidad & Tobago had a 72 % share of intra-regional exports in 2003)<sup>28</sup>. Thus, whilst lack of complementarity in trade flows may not preclude the growth of intra-regional trade, it often creates an imbalance in the economic growth in the region, as the stronger members in the group tend to benefit more from the specialization and adaptation processes triggered by regionalism. If this imbalance is left unchecked, it may undermine the viability of the RTB as less developed members become frustrated by their failure to achieve economic growth from the RTB.

In summary, whilst I agree with Mattli and others that complimentary trade flows would be a positive factor for successful integration, it is my assertion that overlap in outputs does not automatically spell disaster for regional integration. This is possible since integration may trigger the processes of specialization and diversification to correct the overlaps in output. However, great care must be taken in a regional bloc to ensure that the specialization and diversification processes do not benefit some members more than others. Specific mechanisms must therefore be adopted to ensure that economic growth in the region is fairly distributed.

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<sup>27</sup> According to the IADB, *Mercosur Report No. 11*, Institute for the Integration of Latin America and the Caribbean (INTAL) Report Series, February 2007 at p. 34.

<sup>28</sup> IADB, *CARICOM Report No. 2* supra n 9, Table 5 at p. 86 .

Application of Demand Factor Learnings to the CSME:

The demand factors are all underpinned by the potential for greater economic growth for member states resulting from integration. This potential may arise due to the realization of economies of scale and scope thereby reducing production costs and increasing international competitiveness of CARICOM goods. This is certainly true for the Region where the total population is approximately 14 million<sup>29</sup> whereas most individual member countries have populations of less than a million. However, Sir Arthur Lewis noted that even regional integration would not create a large enough market to support domestic production of manufactured goods on an economic scale and that “the extra-regional market provided the greatest potential for utilizing the surplus labour of the Caribbean”.<sup>30</sup>

Another factor which impacts on the potential for economic gain is the external environment/market. The climate in today’s external environment certainly indicates that the Caribbean countries cannot stand alone and compete effectively in the world market which is increasingly dominated by regionalism, by falling tariffs and by a reduction in preferential treatment for developing countries.

The potential for economic gain can also be derived from increased intra regional trade – again that has been the case for the CARICOM since intra regional trade rose from 8.81 % in 1973 to 15.59 % in 2001<sup>31</sup>. However the intra regional trade is skewed in favour of Trinidad which accounted for 72% of intra-regional exports in 2003<sup>32</sup>.

The potential for both intra and extra regional trade is affected by the complementarity of trade flows. Whilst the CARICOM countries do exhibit significant overlap in their outputs; there is sufficient complementarity to sustain growth in intra and extra regional trade.

The potential for economic gain should spur corporations on to lobby their governments for faster implementation of Treaty provisions – however, this has not been the experience in the Caribbean thus far, since there are not many firms operating on a regional basis in the manufacturing sector ( though in the financial services sectors there

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<sup>29</sup> IADB, CARICOM Report no. 2, supra n. 9 at p. 4

<sup>30</sup> See commentary on Sir Arthur Lewis’ theories in Downes supra n. 6 at p. 6

<sup>31</sup> CARICOM Secretariat, CARICOM: Our Caribbean Community, An Introduction ( Kinston, Jamaica: Ian Randle Publishers, 2005) Table 1: CARICOM Trade 1973-2001 at p. 106.

<sup>32</sup> IADB, CARICOM Report No. 2 supra n. 9 Table 5 at p. 86.

has been some regional expansion with many banks having branches and operations that span the region)<sup>33</sup>; it is expected that as corporations spread their boundaries across the region<sup>34</sup> and as regional stock markets become reality ( presently cross-listing on regional stock exchanges is very low with only 13 firms being cross-listed on five of seven stock exchanges in the Region)<sup>35</sup> – the corporate “buy-in” for integration will increase.

The CSME does possess most of the demand factors identified above since there is potential for increased economic gain for each member through participation in this RTB. However, for this potential to be fully realized the CSME must address the present trade imbalances and seek to increase benefits to the weaker, lesser developed economies in the region. A regional industrialization effort as suggested by Sir Arthur Lewis<sup>36</sup> will also enhance the region’s ability to compete on the world stage and diversify its exports to include more complex industrialized goods. Finally, regional leaders and organizations should look to involve regional corporations to a greater extent in the integration process, since the European experience shows that corporate “buy-in” is helpful in accelerating the pace of implementation of regional agreements.

### **SUPPLY FACTORS:**

In addition to demand factors certain supply conditions must also be met if economic integration is to be successful. According to Mattli, the two most important supply conditions are the existence of an “undisputed leader state” among the group of countries forming the RTB and the existence of “commitment institutions”.

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<sup>33</sup> Downes, supra n. 6 at p. 17

<sup>34</sup> This spread of corporations across the region is encouraged and facilitated by Chapter 4 Part One of the Revised Treaty of Chaguaramas which states that one goal of the CSME is to promote co-ordination of national industrial policies of Member States and the establishment and maintenance of an investment friendly environment. Intra-regional growth in firms is also facilitated through the provisions of the Revised Treaty which provide for the free flow of capital & labour.

<sup>35</sup> Norman Girvan, Towards a Single Economy and a Single Development Vision, CARICOM Secretariat and the Special Task Force on the Single Economy October 25, 2006 at p. 27.

<sup>36</sup> See Downes, supra n 6. at p. 17-18

*The importance of a “regional leader”:*

An undisputed leader helps to overcome collective action problems in deciding which rules, regulations and policies to adopt and it may also act as a “regional paymaster” distributing aid to the poorer members and helping them during the transition as their industries adapt to greater competition in the larger regional market<sup>37</sup>. A second supply condition is the existence of commitment institutions which carry out a monitoring function in order to ensure that the members and individual entities are living up to their treaty obligations and also provide enforcement procedures against states and individuals which violate treaty obligations<sup>38</sup>.

Applying these criteria to the EC, it would seem that both conditions are satisfied since Germany emerged as the undisputed leader of the EC and there are commitment institutions such as the European Commission and the European Court of Justice. Germany had, and still has the strongest economy of all the members of the EC. It is therefore able to contribute the most to the EC budget and it is the major trading partner of all the other members. This economic pre-eminence led to its political dominance, with Germany being able to shape the formation of EU institutions. This is illustrated by the widespread acceptance of the Bundesbank as the model for the statute for the European Central Bank. In the area of technical standards, the German national standards-setting organization, Deutsches Institut für Normen (DIN), influenced the European standards-setting organizations, European Standards Committee (CEN) and European Electrical Standards Committee (CENELEC)<sup>39</sup>.

In addition to shaping the institutions, Germany’s leadership can also be seen in its role as “paymaster of the EC”; the Germans by virtue of their strong economy were able to contribute the most to the EC Budget and to provide assistance to poorer countries as they integrated into the competitive EC market. This again was invaluable in the successful development of the EC economy<sup>40</sup>.

This situation can be contrasted with MERCOSUR which does not have an undisputed leader. Although Brazil has the largest economy and contributes the most to

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<sup>37</sup> Mattli, *supra* n. 11 at, p 56.

<sup>38</sup> *Ibid*, p. 100

<sup>39</sup> *Ibid.*, p. 103

<sup>40</sup> *Ibid.*,p.104-105.

the budget for MERCOSUR it has not taken up the mantle of leadership and MERCOSUR therefore continues to be plagued with coordination problems (delays in decision making and implementation of policies) and distribution problems ( assistance to the members with weaker economies is not as readily forthcoming as it should be)<sup>41</sup>. As a result, although MERCOSUR has been relatively successful in increasing trade between members it has been plagued with delays in the implementation of policies geared towards deeper integration<sup>42</sup>.

In relation to the issue of whether an undisputed leader is necessary, past experience **partially** supports Mattli's assertion that an undisputed leader is necessary for successful operation of RTBs. MERCOSUR may be an exception to this proposition, since some commentators believe that it has been relatively successful in increasing the trade between its members<sup>43</sup>; and it has achieved this without the presence of an undisputed leader. Also, it is submitted that in a large trading bloc, leadership can be shared by more than one country, if the joint "leaders" take responsibility for different areas. Nonetheless, I am of the view that having more than one or two leaders would be counter-productive. Some leadership is necessary to overcome collective action problems- whether this leadership takes the form of an undisputed leader or a joint leadership by more than one country does not matter. What matters is that at least one member must take charge of integration efforts, especially those relating to income distribution, policy formation and institution building.

In the case of the CSME Trinidad & Tobago is the natural choice for the "regional leader" since it has the strongest economy and therefore the greatest ability to act as the "regional paymaster" and to set the tone for regional institutional formation. In some respects Trinidad & Tobago has adopted this role by providing financial assistance to other CSME members who are affected by natural disasters. Trinidad & Tobago also contributes a great deal financially to the maintenance of the CARICOM/CSME institutions. But it is arguable whether Trinidad & Tobago is seen as the regional leader

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<sup>41</sup> *Ibid.*, p. 160.

<sup>42</sup> *Ibid.*, p. 159-161.

<sup>43</sup> Felix Pena, "Some Lessons from the Mercosur Initial Experience" in Paul Demaret, Jean-Francois Bellis & Gonzalo Garcia Jimenez, *Regionalism and Multilateralism after the Uruguay Round: Convergence, Divergence and Interaction*, (Brussels: European Interuniversity Press, 1997) 161 at 167.



by the other member-countries. In fact, some may resent Trinidad & Tobago's economic preeminence. Unfortunately, rivalry and jealousy has marred the face of Caribbean integration efforts since the days of the West Indies Federation and this may prevent any island from truly exercising the role of "regional leader". But it is submitted that rather than resisting the natural tendency of the economically stronger nations in the region to take up the mantle of "regional leader", the CSME should embrace attempts at leadership by countries with the stronger economies; with one caveat- that checks and balances are written into the Treaty provisions to ensure that "leadership" does not turn into economic and political "domination" of the weaker members of the union.

*The importance of commitment institutions:*

The other major supply condition is the existence of commitment institutions. The two main commitment institutions in the EU are the European Commission and the European Court of Justice (ECJ). The Commission is charged with the responsibility of ensuring that states, firms and individuals comply with their obligations under the treaties and secondary EU legislation<sup>44</sup>.

The ECJ adopts two doctrines, Supremacy and Direct Effect. Under the doctrine of Supremacy, EU law has primacy over national legislation and the doctrine of Direct Effect provides that EU law is directly applicable to the citizens of the member states without prior intervention by their governments.<sup>45</sup> These doctrines have assisted the ECJ in fulfilling their monitoring and enforcement role. Indeed, without strong monitoring and enforcement mechanisms the members and individuals of the EU may have been able to circumvent their EU obligations and undermine integration initiatives but the various organizations, especially the two cited above have helped to ensure that members continue to be committed to integration.

Francesco Duina also supports the view that commitment institutions are necessary to sustain regional integration. In particular he examines the role of regional

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<sup>44</sup> Mattli supra n. 11 at p 100 and see also European Commission, *How the European Union Works: A citizen's guide to the EU institutions*, (Belgium: European Communities, 2003) at 22-23. **[EU Citizen's Guide]**

<sup>45</sup> Mattli supra n 11 at pp 100-101.

law as a facilitator of economic integration. He describes the role of law in the operation of Regional Trading Arrangements ( RTAs) thus:

*“ All RTAs are grounded in some form of law: treaties, agreements, and so on. Most, if not all RTAs, also have additional protocols, frameworks, secondary legal systems, and other legal tools. These documents specify procedures, concepts, and structures that permit the attainment of the broad goals set out in the foundational documents.”*<sup>46</sup>

He then goes on to note that the approach of the interaction between law and the rules of trade in NAFTA is quite different from the approach in the EU and MERCOSUR. Duina describes the NAFTA approach as a “minimalist” approach since the body of NAFTA laws and regulations are less voluminous than in the EU and MERCOSUR. According to Duina, NAFTA has not focused on standardization of every aspect of political and economic relationship between the countries, rather it relies on mutual recognition of each member-state’s standards as well as international standards set by other organizations<sup>47</sup>. NAFTA’s dispute resolution system has also been described as “a reactive conflict-resolution system”.<sup>48</sup> ( it deals with conflicts as they arise rather than trying to prescribe laws and standards to avoid/resolve conflicts before they even occur).

By contrast the role of law in trading bloc regulation in EU and MERCOSUR has been described by Duina as “interventionist approach” since both EU and MERCOSUR have developed complex systems of secondary law taking the form of *directives* and *regulations* in the EU and *decisions* and *resolutions* in Mercosur<sup>49</sup>. This secondary law in both RTBs regulates every aspect of trade and political cooperation in these customs unions. There is therefore a greater attempt at harmonization of laws in EU and Mercosur than in NAFTA. The benefit of this extensive harmonization effort is that it levels the playing field for corporations operating in these RTBs and reduces the production and transportation costs between members<sup>50</sup>. Interventionism also increases the pressure to respect regional law<sup>51</sup>. But the major drawback to the interventionist approach is the high

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<sup>46</sup> Duina, supra n. 22 at p 64

<sup>47</sup> *Ibid* p. 88

<sup>48</sup> *Ibid*

<sup>49</sup> *Ibid* at p. 64

<sup>50</sup> *Ibid* at p. 188-189

<sup>51</sup> *Ibid*

financial and human resource costs to staff the various institutions which are needed to generate comprehensive laws on all areas of cooperation and to monitor and implement the large body of laws<sup>52</sup>. The minimalist approach as seen in NAFTA, though much less costly than the interventionist approach, does make it more difficult for corporate actors to compete with each other since regional laws are not homogenized<sup>53</sup>. The risk for unresolved conflict is also higher under the “minimalist approach” since there is less written law to guide relations between States or between firms operating in the member countries<sup>54</sup>.

Thus, both Mattli and Duina are of the view that “commitment institutions” are necessary to sustain integration movements – but the form and extent of these “commitment institutions” is not rigid but depends on the historical and cultural realities of the particular trading bloc. The CSME with its infant jurisprudence is now free to decide which approach will best serve its needs.

The CSME does satisfy the requirement of having commitment institutions since the following bodies are charged with implementing community decisions: the Council of Ministers, the Bureau of the Conference of the Heads of Government, the Secretariat, the Regional Negotiating Machinery. The Caribbean Court of Justice (CCJ) and to a lesser extent the Secretariat are responsible for monitoring and enforcing community decisions. It is submitted that the institutional arrangements within the CSME need to be streamlined to promote greater efficiency in the implementation of decisions since there are presently too many bodies responsible for implementing CSME decisions, a CSME Commission with similar function to that of the EU Commission may assist in centralizing the implementation process and making it more efficient. The CCJ as it begins to examine regional cases pursuant to the exercise of its original jurisdiction to oversee Treaty<sup>55</sup> matters and disputes between member states, must assert its role as the primary enforcer of community decisions and also in the formulation of sound regional jurisprudence. The success of the CCJ in fulfilling these two roles will have a direct impact on the success of the CSME as a whole.

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<sup>52</sup> *Ibid* p. 190

<sup>53</sup> *Ibid* p. 188

<sup>54</sup> *Ibid*.

<sup>55</sup> The Revised Treaty of Chaguaramas, Chp. 9 Art. 211.

Political will to support integration:

Yet another supply condition has been identified by Paulo Borba Casella, that is: the “political will” to support deepening of economic ties between countries<sup>56</sup>; where “political will” is lacking, integration is unlikely to be successful. Casella acknowledges the role played by successful models of integration, such as the European Union, as guides to more recent attempts at integration, such as MERCOSUR. He also notes that blindly following a model will not bring success, especially if the political will to support deepening of economic ties is absent. Commenting on this issue Casella states:

*“On the one hand, it is not possible to solve every problem before starting implementation. Yet on the other hand, integration cannot be implemented without first having defined its parameters. The evident variation in models and paths illustrates the vital relevance to the success of integration of factors that go beyond strictly economic and legal ones, notably the key role of political will, its stability and capacity to reflect national interest<sup>57</sup>.”*

Where the national interests of a country are ignored in an integration agreement, the political will to move forward with integration is likely to be absent. Casella notes that the European Union’s first focus was on forming economic ties and breaking down barriers to the movement of goods, before it was possible to forge political linkages and to deal with issues such as: a single currency, collective security policy and human rights policy.<sup>58</sup>

I agree fully that the political will to integrate is a key ingredient for the long-term stability of a regional trading bloc. I also agree that for political will to be present the national interests of each member country in the RTB must be adequately taken into consideration. Thus, supra-national institutional arrangements are essential to ensure that long-term commitments to integration are kept and that the integration agenda is not delayed unnecessarily by changes in political leadership of the member countries or variations in public support for integration. To summarize then, political will must be

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<sup>56</sup> Paulo Borba Casella, “The Common Market of the South (MERCOSUR): Models and Qualitative Mutations for Consolidating an Integrated Economic Area”, 9 Ann. Surv. Int’l & Comp. L. 1.

<sup>57</sup> *Ibid.*, p 3

<sup>58</sup> *Ibid* p 12-13.

coupled with the potential for economic gain, in order to provide the impetus for deeper regional integration; one cannot exist without the other.

Political will or the lack thereof, is one of the key issues confronting the CSME today. The lack of political will stems from the fear of the loss of sovereignty. There are many reasons for this fear in the Region. These include the fact that most members only gained their sovereignty a few decades ago and also the collective memory of the failure of past integration efforts such as the Federation which collapsed in 1962 just 4 years after it began.

Whilst it seems that the leaders of the CSME nations have committed themselves to Caribbean integration, the political support from the wider populations is not as readily forthcoming. This deficiency in support from Regional populations (including the corporate actors) may have arisen since the wider populations have not been convinced of the positive effects of integration and how integration will improve the profitability of their businesses or their standards of living. Another issue is the economic divergence among CSME members which often results in Community decisions conflicting with specific national interests in order to satisfy all members. Indeed, some members feel that their national interests are not adequately considered in the institutional arrangements and trade policy outlined by the Treaty of Chaguaramas.

Despite these obstacles to integration it is suggested that the problem of the reluctance to relinquish national sovereignty is not an insurmountable one. Greater utilization of empirical studies on the projected effects of integration on each member state would assist in the formulation of policies that are beneficial to all members, if not in the short term, certainly in the long-term. There is also need to increase public awareness of the need for integration and the benefits to be derived there-from. Finally, getting the corporate actors in the region on board and involving them in the integration process is essential for driving the integration process forward.

## **CONCLUSION**

Integration in the Caribbean Region is no longer a luxury, it is now an imperative if the Region is to survive in this increasingly competitive world trading system. The Region must speak as one voice in WTO negotiations and in negotiating deals with larger countries and other RTBs. But the success of regional integration depends on the presence of certain demand and supply conditions. The demand conditions include the potential for economic gain from integration and the existence of complementary trade flows among members of the regional grouping. The potential for economic gain in the region does exist since most member states are better off from having participated in CARICOM since 1973. The issue of overlapping production and lack of complementarity in trade flows still poses a problem but this problem is being mitigated by the increased divergence in the outputs of member states. Though the process of diversification of outputs does tend to benefit the members with the stronger economies more than other members.

The chief supply conditions necessary for successful integration is the presence of a strong regional leader to overcome collective action problems and to provide financial support to weaker members as they adjust to the integrated economics of regionalism. Trinidad and Tobago has the potential to fulfill this role since it has the strongest economy in the region, but it is up to regional leaders to allow Trinidad & Tobago to take up that role and to design mechanisms within the governing Treaty to ensure that leadership in any field of integration by any member does not translate into domination and discrimination against other members. The other key supply condition is the existence of commitment institutions and the CSME does satisfy that requirement through the operation of institutions such as the Council of Ministers, the Bureau of the Conference of the Heads of Government, the Secretariat, the Regional Negotiating Machinery and the Caribbean Court of Justice. These institutions are charged with implementing community decisions. The CCJ is to take primary responsibility for the role of monitoring and enforcement of community decisions. It is submitted that the institutional arrangements within the CSME need to be streamlined to promote greater efficiency in the implementation of decisions and the CCJ must assert its role in the enforcement of community decisions and the formulation of regional jurisprudence. The

CCJ's success in fulfilling these functions will have a direct impact on the success of regional integration efforts.

Finally, the existence of political will to support integration is also necessary for successful integration. This political will seems to be present in regional leaders but it is not as strong among private citizens and corporate actors in each territory. Efforts must be made to increase the base level political support for integration if the CSME is to thrive and to fulfill its goal of increasing the economic prosperity of the Region.

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