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INTEGRATION IS A BARGAIN - Part II

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My last article noted that the package of arrangements, that was the basis of the Treaty of Chaguaramas, which launched the Caribbean Common Market, did not produce the intended results. After an initial increase in regional trade from which both the smaller and the larger countries were benefiting in terms of income, employment and establishment of new industries even in the smaller countries, the recession affecting the larger countries, in particular, led to a lessening of regional trade in the 1980's.

When, then, the CARICOM governments signed the Grande Anse Declaration, which permitted the eventual agreement on a Revised Treaty of Chaguaramas and the implementation of the Caribbean Single Market, the larger countries sought to persuade the smaller ones that a new basis could be provided that would give the economic integration movement a new impetus.

But, what had occurred between the slow down of the process in the 1980's and the new commitment to a new process of integration was, in retrospect, a change in the motivation for integration. The motivation of the original Treaty of Chaguaramas indicated that the growth of integration and regional trade would be propelled from within, through the import substitution process guaranteed by an appropriate protective Common External Tariff (CET).

Now, the basis of the new arrangement was changed. In making a commitment to what was now called "open regionalism", CARICOM governments took the view that the competitiveness and growth of their economies could only be ensured by removing, or substantially lowering, the protection of the CET. Tariff (or import duty) would now be more in-line with those of developed countries.

This would create conditions for establishing what was called "international competitiveness" – the development of economic activities on the basis of their ability to compete in the international market – that is, against the best producers in the world economy. This would allow CARICOM countries to create platforms for investment from outside, that could utilize the "economies of scale" provided by a regional economic space.

At first, the smaller countries of the Region considered this somewhat of a bitter pill to swallow. But, driven by the promise of compensatory funds and technical assistance,

arrangements to permit the opening of their economies without undue, sudden damage, they accepted the new scheme.

The actual process of implementing the basis for a Single Market and Economy (SME) was much more prolonged than anticipated. At the point of the Grande Anse Declaration, it was stated that the SME should come into existence by 1992. In fact, we have only this year arrived at establishing the conditions for establishment of a Single Market, with implementation of provisions for a Single Economy to follow. And indeed Barbados' Prime Minister, Owen Arthur was once moved to comment that it was folly to believe that we could have proceeded with such dispatch, given the extensive provisions that countries were required to meet.

So between 1992 and the present, there was a certain lapse in attention in ensuring that persistent progress was made in implementing the CSME. The larger countries experienced some difficulty in implementing the domestic measures required for effective structural adjustment and liberalization of their economies. The role of the state in creating economic activities was diminished, and a certain despondency arose about the promised effectiveness of the measures, as unemployment levels increased, or the promised spurt in economic growth failed to materialize relatively early.

In addition, globalisation and the persistent insistence of the developed countries on the importance of international economic liberalization began to induce CARICOM governments involved in the structural adjustment process to turn their eyes to wider geographical spheres of economic growth, and almost to give these priority over the CSME process.

An important impetus to this effect was the establishment of NAFTA whose establishment in 1994, coincided with a determined effort, in Trinidad and Tobago, for example, to create the internal conditions for international liberalization. Both Trinidad and Jamaica seemed now to place emphasis on joining NAFTA, so as to attract investment from North America and compete with other countries seeking to access that market. Regional free trade areas, defined by the hemispheric liberalization led by the United States, became the focus as the appropriate integration vehicles, rather than the more narrowly confined CARICOM common market space. CARICOM

The smaller countries of the Region, while aware of these tendencies, did not, at that time, feel that they had the capacity to engage in these wider ventures. But, they were beginning to observe some developing processes affecting themselves. First, though there had been a decline in regional trade, both Trinidad and Barbados retained substantial roles as exporters of industrial products to the OECS area. Trinidad's low energy costs, and successive governments' commitment to "freeing up" the conditions for movement of capital for investment to other areas of the Region, gave them a decisive competitive advantage over the OECS.

Secondly, the favourable upturn in the price of oil and the discovery and exploitation of new gas reserves, led to the development of substantial surpluses of financial capital that created a vent for the movement of capital to other Caribbean countries. The result has

been a new form of economic integration dominated by Trinidad, particularly in financial arena, with an integration of commercial banks to create larger entities capable of competing in the wider Caribbean and hemispheric sphere beyond CARICOM itself.

Further the new capital inflows entering the Trinidad financial system have permitted Trinidad industrial entrepreneurs to seek to integrate certain industrial activities, begun as national ventures on the basis of import substitution industrialization, across the CARICOM region as a whole (the cement industry is one example of this).

The Trinidad and Tobago economy has therefore, in this period, become the driver of integration – an integration which is essentially private sector led, and undertaken with a consciousness that the CARICOM economic space does not necessarily provide the limit or boundary for their integration activities. It is true that Jamaica leads the field in the sphere of tourism integration, through the development of large chains like Sandals and that led by the Issa group. But in spite of an economic adjustment that has created effective wage costs, Jamaica has not been able to maintain its early penetration of the regional market.

In this new context, perceive the anxiety of the government of Trinidad and Tobago to persist in creating conditions for expansion of its economic activities beyond the orthodox boundaries of CARICOM's CSM, and to insist that CARICOM must create integration relationships with countries like Costa Rica and the Dominican Republic which have also been engaged in process of structural adjustment and liberalization for easier access to the North American market.

So, as the effective implementation of the CSM and CSME has drawn near, some of the OECS countries have begun to ask themselves: What is our place in the new dispensation? What conditions are being provided for us to effectively find a place of meaningful competition in the regional market? Can we have a single market in which we are largely the importers of goods, without a single economy which might create the conditions for balanced growth among the partners? What is the new integration bargain – the new package deal – that can be struck to ensure that we do not become laggards in the system?

There is even a hint that some in Barbados are asking questions along the same lines. And, the hesitations that occurred as the date for implementation of the Revised Treaty drew near indicate that, while a temporary truce was arrived at to ensure that all were on board, these questions remain. Some ask: Is there a basis for a mutually beneficial CSME in this era of wider hemispheric and international liberalization/integration? We shall pursue the discussion on this in another article. *Part I of this series was published in The Sunday Guardian, 3rd September, 2006.*