CARICOM: The Integration Process in Crisis

RAMESH RAMSARAN

THE DECISION to initiate an economic integration scheme among any group of countries, be it in the developed or developing world, is not unusually accompanied by a deep sense of accomplishment. This is indeed understandable, given the theoretical framework within which the whole concept of integration has come to be discussed in recent years. Increasingly, however, it has come to be realized that the signing of an agreement is not the end of the exercise, but the beginning of what is often a long and painful process. To developing countries in particular, the difficulties along the integration road have proved almost insurmountable, with the result that there are few schemes, if any, existing today which can be described as functional when viewed in terms of their initial objectives.

The reasons for this situation cannot be found in any one factor. It is tempting to attribute it all to the "lack of serious commitment" on the part of member states. But this obviously would be over-simplifying the problem, especially in view of the fact that integration tends to be seen as a critical strategy in the developmental effort. One of the difficulties has undoubtedly stemmed from the perception of what is involved in the process of integration and an inability to grasp fully the nature and extent of the problems inherent in such an undertaking. A clear manifestation of this is to be seen in the immense political problems that arise when attempts are made to institute regional measures which have a fundamental bearing not only on the rate of progress, but on the direction of development. Paradoxically, it is precisely these two areas which often come in for the most severe criticism.

I. THE RATIONALE AND PERFORMANCE OF CARICOM

The Caribbean Community and Common Market (CARICOM)1 which comprises twelve member states of varying sizes and levels of economic

1 The members of CARICOM are: Jamaica (pop. 2,008 m.), Trinidad and Tobago (pop. 1,070 m.), Guyana (pop. 0,791 m.), Barbados (pop. 0,242 m.), Belize (pop. 0,136 m.), St Lucia (pop. 0,108 m.), Grenada (pop. 0,108 m.), St Vincent (pop. 0,091 m.), Dominica (pop. 0,075 m.), Antigua (pop. 0,071 m.), St Kitts-Nevis (pop. 0,046 m.), and Montserrat (pop. 0,031 m.) The population figures generally refer to mid-1974.

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development, was launched in 1973\(^2\) in the hope that it would assist in
the economic and social transformation of a region where the resources and
size of the constituent units pose serious limits to development. The
problem of competition, too, was a factor militating against the optimal
use of the resources of the area. Under CARICOM it was hoped that there
would not only be cooperation in essential common services, but that a
number of regional policies would emerge which would provide a frame-
work for dealing with fundamental problems having a critical bearing on
the development of the area. Undoubtedly, progress has been made in
some directions. In certain other significant areas, however, the results
achieved so far have been greatly disappointing. Two outstanding
examples in this respect are the failure to maximize benefits from the
complementary use of the region’s resources, and the inability to formulate
a common policy towards foreign investment in the region. The experience
of integration schemes in other developing countries has shown that the
latter has immense significance in terms not only of the overall benefits
accruing to the integration area, and even the possible distribution of
gains among partner states, but also in relation to the long-term develop-
mental objectives to which the countries are aspiring in the context of
greater self reliance and reduced foreign dependence.

The division of benefits between the more developed (MDCs) and
the less developed countries (LDCs) of the group is also a major source of
concern. Conflicts, too, among the MDCs themselves have not been absent.
In fact the recent increases in oil prices and the world recession have
served to exacerbate these conflicts to the point where fears have been
expressed about the whole future of CARICOM.

The so-called MDCs of the group are Jamaica (1974 \emph{per capita} GNP
US \$1,190), Trinidad and Tobago (US \$1,700), Barbados (US \$1,200)
and Guyana (US \$390).\(^3\) The bulk of the intra-regional trade takes
place among these four countries. To Trinidad and Jamaica, however,
with their more developed industrial sectors, the CARICOM market is
of particular significance. Of the four MDCs Trinidad has been able
to achieve the best trade performance so far, as is evident in Table 1.
Oil products which are the country’s major export weigh heavily in
these figures. Even when we exclude the oil element (SITC3), however,
Trinidad and Tobago still maintains (with rare exceptions) a consistently
favourable trade balance with her sister states. The extent of these
balances with respect to the other MDCs in recent years can be seen from
the figures we have provided in Table 2. With respect to Guyana the

\(^2\) Prior to this date there existed what was known as the Caribbean Free Trade Association
(CARIFTA) which came into being in 1968.

\(^3\) The comparable \emph{per capita} income for the LDCs was estimated around US \$500 at current
market prices. According to the World Bank estimates some of the LDCs appear to have a
higher \emph{per capita} income than Guyana. The 1974 estimates for Belize and Antigua, for
example, were put at US \$690 and US \$540 respectively. As is well known, however,
\emph{per capita} income can be misleading as an index development.

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TABLE 1
TRINIDAD AND TOBAGO'S TRADE BALANCE WITH OTHER MDCS, 1970 TO 1976
(TT $mn)

<table>
<thead>
<tr>
<th>Year</th>
<th>Jamaica</th>
<th>Guyana</th>
<th>Barbados</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>+2.5</td>
<td>+20.1</td>
<td>+14.7</td>
</tr>
<tr>
<td>1971</td>
<td>+8.5</td>
<td>+19.9</td>
<td>+15.1</td>
</tr>
<tr>
<td>1972</td>
<td>+14.2</td>
<td>+22.1</td>
<td>+14.3</td>
</tr>
<tr>
<td>1973</td>
<td>+21.7</td>
<td>+38.2</td>
<td>+16.8</td>
</tr>
<tr>
<td>1974</td>
<td>+67.2</td>
<td>+76.8</td>
<td>+35.9</td>
</tr>
<tr>
<td>1975</td>
<td>+82.5</td>
<td>+84.5</td>
<td>+32.4</td>
</tr>
<tr>
<td>1976p</td>
<td>+15.2</td>
<td>+124.3</td>
<td>+36.2</td>
</tr>
</tbody>
</table>

p provisional.

Sources: CSO, Quarterly Economic Reports, various issues.

TABLE 2
TRINIDAD AND TOBAGO'S NON-OIL TRADE BALANCES WITH OTHER MDCS 1970 TO 1975
(TT $mn)

<table>
<thead>
<tr>
<th>Years</th>
<th>Barbados</th>
<th>Jamaica</th>
<th>Guyana</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
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<td>1.3</td>
<td>2.1</td>
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<tr>
<td>1971</td>
<td>10.3</td>
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<td>-0.3</td>
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<td>1972</td>
<td>8.9</td>
<td>4.1</td>
<td>1.3</td>
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<tr>
<td>1973</td>
<td>15.7</td>
<td>7.9</td>
<td>10.5</td>
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<tr>
<td>1974</td>
<td>15.6</td>
<td>16.8</td>
<td>9.8</td>
</tr>
<tr>
<td>1975</td>
<td>17.2</td>
<td>20.4</td>
<td>2.4</td>
</tr>
<tr>
<td>1976p</td>
<td>11.0</td>
<td>-9.3</td>
<td>2.9</td>
</tr>
</tbody>
</table>

p provisional.
Source: Annual Trade Reports; Central Statistical Office.

figures would be significantly larger in the absence of Trinidad's rice imports from that country. In 1975 the value of rice imports was over TT $20m.

Given the situation we have outlined above, the recent decisions of Jamaica and Guyana respectively to restrict imports (both from within and outside) the region were bound to provoke an adverse reaction from Trinidad. Both Jamaica's and Guyana's decision have been prompted in a large measure by the critical balance of payments problems they are currently facing. This becomes apparent from Table 3. Because of its oil
TABLE 3
BALANCE OF PAYMENTS AND INTERNATIONAL RESERVES POSITION1 OF THE MDGs, 1969 TO 1976
(US $m).

<table>
<thead>
<tr>
<th>Years</th>
<th>Jamaica</th>
<th>Guyana</th>
<th>Barbados</th>
<th>Trinidad and Tobago</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Bal. of payments</td>
<td>Int. reserves</td>
<td>Bal. of payments</td>
<td>Int. reserves</td>
</tr>
<tr>
<td>1969</td>
<td>-2.5</td>
<td>117.9</td>
<td>-2.0</td>
<td>20.55</td>
</tr>
<tr>
<td>1970</td>
<td>+14.8</td>
<td>139.2</td>
<td>-2.4</td>
<td>20.40</td>
</tr>
<tr>
<td>1971</td>
<td>+20.3</td>
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<td>26.16</td>
</tr>
<tr>
<td>1972</td>
<td>-31.1</td>
<td>159.7</td>
<td>+8.0</td>
<td>36.75</td>
</tr>
<tr>
<td>1973</td>
<td>-30.0</td>
<td>127.4</td>
<td>-26.1</td>
<td>13.97</td>
</tr>
<tr>
<td>1974</td>
<td>+69.9</td>
<td>190.4</td>
<td>+46.2</td>
<td>62.57</td>
</tr>
<tr>
<td>1975</td>
<td>-73.7</td>
<td>125.6</td>
<td>+50.0</td>
<td>100.49</td>
</tr>
<tr>
<td>1976</td>
<td>-271.2</td>
<td>32.4</td>
<td>-103.4</td>
<td>27.28</td>
</tr>
<tr>
<td>1977</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>March</td>
<td>n.a.</td>
<td>58.8</td>
<td>n.a.</td>
<td>16.88</td>
</tr>
<tr>
<td>May</td>
<td>n.a.</td>
<td>30.5</td>
<td>n.a.</td>
<td>21.60</td>
</tr>
</tbody>
</table>

n.a. not available.
1 end of period.

Note: The international reserve figures include SDR's and Reserve Position in the IMF.
exports, Trinidad and Tobago has found itself in a highly favourable position. Her international reserves increased from US $47 m. at the end of 1973 to US $751 m. at the end of 1975. At the close of 1976 the figure passed the US $1,000 m. mark. Barbados, too, appears not to have fared too badly in view of its highly vulnerable position in the context of its dependence on sugar and tourism as her main foreign exchange earners. In fact, her external position seems to have improved since 1973, and this no doubt explains why she, too, has not resorted to import restrictions. When we look at the figures for Guyana and Jamaica, however, the picture is a different one. Guyana’s international reserves increased from US $63 m. at the end of 1974 to US $100 m. at the end of 1975. Since then there appears to have been a rapid decline in her position. The reserves figure at the end of May 1977, however, shows a slight improvement over that at the end of the first quarter of that year. Jamaica’s reserves dropped from US $190m. at the end of 1974 to US $126 m. at the close of the following year, and to US $32 m. at the end of 1976. The figure appears to have increased in the first quarter of 1977, but seems to have dipped again in the following months. The gross reserves outstanding at the end of 1976 amounted to less than 5 per cent of the country’s total imports in 1975. Net foreign assets are estimated to have declined from US $88m. at the end of 1974 to US $–12 m. at the end of 1975 and to US $–234·0m. at the end of 1976. At the end of March 1977 the position stood at US $–18·9 m.

II. Treaty Provisions for Economic Difficulties

The plight of both Guyana and Jamaica is due to a combination of factors. These include weather conditions, the poor performance of their major foreign exchange earners in the context of the prevailing world recession and the unrelenting rise in the level of their imports. The framers of the CARICOM Agreement were well aware that such situations were bound to arise from time to time, and therefore instituted provisions under which countries could defend themselves in such a crisis. Article 28 of the Annex to the Treaty establishing the Caribbean Community permits a member state to introduce quantitative restrictions with the aim of safeguarding its balance of payments. The Article, of course, is so designed as to prevent members from imposing restrictions for attaining objectives other than those relating to their payments position, and in this connection lays down certain procedures to be followed when action is taken in the context to which it applies. In essence the Article states that the Council (this is the Common Market Council of Ministers which is deemed to be the principal organ of the Common Market) should be notified of any restrictive measures before they are put into force. The Council is required not only to examine the situation and keep it under review, but is empowered by
majority vote to "make recommendations designed to moderate any damaging effect of these restrictions or to assist the Member State concerned to overcome its difficulties". The function of the Council under this Article, however, does not end there. If the balance of payments difficulties persist for more than 18 months and the measures applied seriously disturb the operation of the Common Market, the Council can (again by majority vote) and "taking into account the interest of all Member States . . . devise special procedures to attenuate or compensate for the effect of such measures". The Council also has a role to play in the normalization process. If the proposals put forward with this latter aim in mind are thought to be inadequate, the Council "may recommend to member states alternative arrangements to the same end".

Such a provision is, of course, a common feature of integration treaties. Countries must be permitted to mobilize defence mechanisms in certain situations, even when other partner states are adversely affected. The logic of this becomes apparent if we visualize a situation where the bulk of the particular country's trade is with its partner states in the grouping rather than with third countries. Clearly the higher the degree of intra-regional trade the more likely partner countries would be affected by the adoption of restrictive mechanisms by a member state in times of difficulty. Important variables such as income and employment are likely to suffer in major exporting countries within the group. If the aim of an integration exercise is to increase the amount of intra-regional commerce both in new products and through the diversion of trade from third countries, then the implication of this development has to be recognized and special measures adopted to meet the problems that can arise in such a situation. Recent events would seem to indicate that the existing mechanisms in CARICOM are far from adequate in this respect.

Given the respective payments position of Jamaica and Guyana we outlined earlier, it would appear that these countries had sufficient grounds for resorting to the protection afforded under Article 28, and partner states should therefore have shown a certain amount of sympathy in the circumstances. In fact Jamaica's external position deteriorated so badly that she was forced to go even further and institute a dual exchange rate system (consisting of a basic rate which is equivalent to the old rate of $0.9091 = US$1 and a special or new rate which is equal to J$1.25 = US$1) in an effort to solve its balance of payments problem. The purpose

4 The perception of the situation differs widely. The position taken by the Trinidad and Tobago Chamber of Industry and Commerce, for example, can be seen in the following statement:

"It appears that a sinister pattern is repeating itself among our CARICOM partners where a political shift to a leftist ideology precedes restrictive trade practices, domestic belt tightening, economic cutbacks, and disregard for the economic integration of the area".

The implication of this statement is that the restrictive measures adopted by Guyana and Jamaica respectively have less to do with balance of payments problems than with the avowed "socialist" policies being pursued by these countries.
of this system which applies to goods from within and outside CARICOM is to make "non-essential" imports more expensive in terms of domestic currency, and thus discourage such imports as far as possible, while shielding the population from the cost of living effects that would result from an across the board devaluation. Exports of CARICOM countries to Jamaica will thus be affected to the extent that they fall within the "non-essential" category of imports. We should point out here that in the area of exchange rate policy the CARICOM Treaty does not go far. Section 2 of Article 43 merely commits member states to:

(a) a policy of continuing consultation and the fullest possible exchanges of relevant information on monetary payments and exchange rate matters; and

(b) to examine ways and means of harmonizing their monetary and exchange-rate and payments policies in the interest of the smooth functioning of the Common Market.

The obligations under this Article are thus negligible.

It is as yet too early to say precisely what would be the nature and extent of the effect of the Guyanese and Jamaican policies respectively on intra-regional trade and on Trinidad's exports in particular. Exporters in the latter country are already complaining that they are deeply affected. While doing so, however, some are also pointing to instances where importers in both Jamaica and Guyana are unable to pay for goods sold in the past. They even go so far as to insist that further financial assistance by the Trinidad Government to these countries should be conditioned on a commitment on their part to remove the restrictions on imports from Trinidad. One Jamaican official has responded to the general controversy by saying that CARICOM countries should look for export markets outside the region and should not depend on Jamaica.

One of the consequences of the recent controversy is that it has once more brought into sharp focus certain cost aspects of the exercise, which in a sense further reflects the inadequacy of the existing structure. Integration inevitably involves a certain amount of trade diversion, that is, a shifting from a cheaper source outside the grouping to a more expensive source within the grouping. This cost, of course, could be offset by other advantages and one can even conceive of a situation where there is some degree of equity in the distribution of these costs among member states. Such situations, however, are not easily attainable in practice, and the inequity in the burden very often leads member states to break the "spirit" of the movement by resorting to measures which they perceive can alleviate the conditions facing them. Such actions are sometimes precipitated by other motivations. Guyana's recent threat to import sweet soap from Britain rather than from Trinidad provides an example of a case in point. The Prime Minister of Guyana argued that not only was Guyana being
forced to buy a high cost soap from Trinidad, but it was being produced by a multinational corporation against which, generally, he is known to have some strong views. The point raised here may sound a bit trivial but it touches on two issues which have been causing some concern in the region. The first relates to the question of the eligibility of goods for Common Market treatment. Member states (and particularly Guyana) often charge from time to time that certain items exported to them and claiming such treatment do not meet the criteria laid down in Article 14 of the Treaty, and can therefore be subjected to restrictions under Article 21 which permits member states to use quantitative measures against goods which do not qualify for Common Market treatment. The question of determining whether goods measure up to the necessary criteria is not always easy to decide and this often results in a certain amount of controversy among member states. The second point has to do with the benefits derived by consumers from the integration exercise. One of the theoretical advantages associated with integration is that the larger market resulting from the removal of trade barriers leads to a more optimal scale of operations, and this in turn has a favourable effect on prices from the consumers' point of view. The increased competition among manufacturers is also supposed to influence the prices and quality of the goods produced. In a development context where manufacturers suffer from certain handicaps, it is argued that they need to be given a certain amount of protection from imported goods if they are to survive and develop. There is validity in this contention, but it has to be recognized that too much protection, particularly in a situation where there is little or no domestic competition, can result in inefficiency and high cost production, thus placing a serious burden on consumers in the integration area. This burden may far exceed the benefits generated in terms of employment and income. The same situation can result from arrangements where domestic agencies and "manufacturers" are acting largely as conduits for foreign enterprises seeking to penetrate the area.

III. FOREIGN INVESTMENT AND LOCAL RESOURCES

While the problems connected with intra-regional trade expansion have received a great deal of prominence, there are areas which, though having a critical bearing on the nature and process of economic integration, have quietly receded into the background. Two of these areas (which we mentioned earlier) relate to the problems of formulating a common policy towards foreign investment and the need for policies which could promote the complementary use of the region's resources. On these two questions there are a few remarks which are worth making in the context of the problems facing the integration movement in the Caribbean.

With respect to the formulation of a common policy on foreign
investment, the problem has several dimensions of both an economic and political nature. Traditionally, major sectors of Commonwealth Caribbean countries have been dominated by foreign capital and foreign enterprise which still have a large presence in these countries. With the growth of nationalism and the attainment of constitutional independence economic localization has come to be seen not only as a necessary step in the process of decolonization, but as an important objective within the framework of the development responsibilities which the various governments have assumed. Localization (either in the sense of state or private ownership), however, has proceeded rather slowly due to a number of reasons. A major one has no doubt been the lack of confidence to enter into areas traditionally controlled by foreign enterprises. A second is the problem of finance.

This latter factor, which is related to the larger issue of poverty and under-development, also raises the problem of reconciling the desire for localization of the economy with the question of the perceived need for external funds in financing and promoting developmental objectives. This is a dilemma that is far from being satisfactorily resolved and this is reflected in the wide spectrum of views on the role of foreign resources prevailing in the region.

There are two main factors which influence these views and attitudes. One relates to economic philosophy, and the other to perceptions of desirable strategies for dealing with problems of under-development in the region. There are certain countries, which though facing severe economic difficulties, do not think that the solution lies in an open door policy towards foreign capital which they insist must conform to stipulated national terms and conditions which are seen as necessary in order to avoid “economic recolonization”. Some of the poorer islands unable to generate their own investment are apparently prepared to accept external funds on almost any terms. Their small markets and underdeveloped infrastructure, however, do not make them particularly attractive to foreign investors who, of course, have their own criteria in locating their investment.

Another case existing is one which, though pursuing a selective policy in certain areas, sees foreign capital and technology as necessary to the exploitation of certain basic resources which have a critical bearing on the country’s long-term growth and development.

Given this range of perspectives and the varying levels of development prevailing in the region, movement towards a common policy on foreign investment in the context of the opportunities created by the integration framework has not surprisingly proved extremely difficult. A basic factor that has no doubt contributed to this situation is the political conception of the area which is comprised of many small political units all seeing themselves as competing with each other. One of the implications
of this situation, of course, is that the governments of the various countries easily open themselves to manipulation by foreign investors concerned only with their own interest.

The question of the complementary use of the region’s resources has been affected by some of the same factors we have outlined with respect to foreign capital. In fact, the two questions are not un-related. Having resources put to their optional use from the region’s point of view requires control over the disposition of such resources, and for this reason a more concerted effort needs to be made in arriving at a clearly articulated position on the question of the degree and scope of foreign involvement in domestic economies in the context of a commitment to complementary development. Implicit in this approach to integration is a certain amount of regional planning which requires a clear set of political and economic objectives. The political will in particular is fundamental to a challenge to the status quo and to the adoption of more viable strategies with respect to the use of resources and a reorientation of entrenched economic patterns and behaviour. This is a factor that has so far proved to be quite elusive to Caribbean governments, concerned as they are, with limited objectives formulated within narrow political and economic perspectives. In such circumstances issues which have a fundamental bearing on the structural transformation of the region tend easily to get lost in exercises motivated by short-term expediency.

IV. CONCLUDING OBSERVATIONS

Some of the recent integration experiences among developing countries provide some very important lessons which must of necessity inform further efforts in this direction. Treaties can be as eloquent and as detailed as one could wish. The supporting regional institutions may be able to attain the highest levels of efficiency within their frame of reference. Unless, however, the countries concerned are willing to adopt the kind of policies and measures necessary to realize integration objectives, the whole operation becomes ineffective consuming valuable time and resources. One of the difficulties in this connection, of course, has been the inability to articulate a perspective which clearly establishes the relationship between individual well-being and collective advancement.

The integration effort in the Commonwealth Caribbean has been in effect for only a short time. The initial structure has undergone a number of changes. The present problems facing the movement, however, indicate that the arrangements are far from perfect and suggest the need for an urgent reappraisal of the current approaches and emphasis.