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## **A Retrospective Look on the Role of Trade and Regional Integration in Caribbean Development**

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**A RETROSPECTIVE LOOK ON THE ROLE OF TRADE AND REGIONAL  
INTEGRATION IN CARIBBEAN DEVELOPMENT**

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## **A Retrospective Look on the Role of Trade and Regional Integration in Caribbean Development**

### **Abstract**

**This paper reviews the Caribbean contributions over the post World War II period on the unique role of trade and regional integration for the development of countries in the region. It is shown that thinking on the role of trade and regional integration evolved from a focus on economic development to a broader concept of development incorporating the promotion of cultural and national identity. The perception on the roles of trade and regional integration has also been strongly influenced by changes in the domestic and international environment. It is concluded that while the contributions have been strong in establishing the technical feasibility of several important trade and integration initiatives, they fell short in articulating strategies for mobilising those who would be most directly involved in making the production decisions.**

### **Introduction**

In this paper a review will be conducted of the evolution of Caribbean thinking on the role of trade and regional integration in economic development. International trade had, historically, played an important role in economies of countries in the region. It is then not surprising that in reflecting on the causes of underdevelopment and on potential strategies for development, there was a great deal of attention directed towards the role of trade. One can identify a number of common themes emerging from Caribbean thinking on trade and integration in the period since the end of the Second World War. One recurrent theme, is that given the small size of the individual countries, a strategy of economic development based on domestic markets would have limited success, since there would be few production activities which were economically feasible. Emerging from this consensus was the second major theme, the need to gain access to extra regional markets as a means of broadening the range of feasible activities. Given that domestic producers would be forced to compete with established producers in international markets, the issue of securing preferential marketing arrangements, was seen as important not only for such traditional export products, such as sugar and bananas, but for being critical to the success of efforts at economic diversification.

Early thinking on the issue of economic integration emphasized the role it could play in helping to relieve the constraints on economic activity imposed by the small size of the individual countries. However, it was always recognized that the creation of a regional market would not be sufficient to permit establishment of the range of activities necessary to provide employment for the

large labour force in the region. Economic integration could play a role in helping secure access to external markets, since acting jointly in pursuit of a common goal would allow for more effective bargaining than would be the case if the countries negotiated individually.

Although trade and regional integration has been seen over the post war years as important in addressing some of the outward manifestations of underdevelopment, such as low levels of income and high unemployment, they have also been seen as playing a central role in a more comprehensive concept of development which extended beyond economic considerations into areas of culture and national identity.

The paper will be structured as follows. First, there will be an outline of the early contributions of Lewis to the debate on the special role of trade and regional integration to Caribbean development. This will be followed by a review of the ideas of the leading contributors to Caribbean economic thought in the sixties on the role of trade and integration in the underdevelopment and development of countries in the region. In the third section, it will be shown how internal factors, as well as developments in the international economy in the post 1980 period, impacted on thinking on policy strategies in the areas of trade and regional integration. The concluding section will involve some reflections on the reasons why in spite of the considerable intellectual effort devoted in making the case for the importance of the role of regional integration to Caribbean development, as well as the need to diversify and expand exports, there was very limited progress towards either of these objectives.

### **The Post War View on Trade and Regional Integration in Caribbean Development**

The promotion of development in the region over the years has centred on strategies for the alleviation of poverty. In the immediate post war period the existence of widespread poverty was linked directly to high levels of unemployment. Reduction in unemployment was seen as the critical factor in the promotion of development. Lewis argued that the solution to the problem of unemployment rested in economic diversification, specifically, a move away from specialization in agriculture towards industrialisation of the island economies. This was essential because in all the island economies there was a scarcity of agricultural land relative to population. In his words, " The case for rapid industrialisation in the West Indies rests chiefly on over population"( Lewis 1950, p.1).

He then proceeded to address the issue of what were the major obstacles to industrialisation

in the islands and how these could be overcome. The major obstacles, as he saw them, were the small size of island markets, the scarcity of domestic investment capital and limited skills in the marketing of industrial products. Recognition of the need to address the size constraint led him to stress two important requirements for a successful programme of industrialisation. The first was that if manufacturing industry was to provide the level of employment desired, the islands would have to produce products for export markets. Import substitution industrialisation offered limited scope for addressing the employment issue. Secondly, he argued that since there were very few industries in which the islands together could support more than a single factory able to operate at a reasonably economic scale, a customs union among the islands was an essential requirement to take advantage of the limited opportunities for import substitution.

Lewis argued that the other major obstacles to industrialisation, capital scarcity and a lack of marketing skills, could be overcome by adopting a strategy which had been used by Puerto Rico. This strategy, which, subsequently, became known in the Caribbean as 'industrialisation by invitation', was based on attracting foreign firms to establish plants in the region to produce items for extra - regional markets. Given the importance of external economies in a firm's decision as to where to locate a new plant, firms would not normally be attracted to establish new plants in areas without industry like the Caribbean. He argued that special incentives, such as temporary monopoly rights, tariff protection and tax holidays, would have to be provided to industrialists as inducements. His views in this regard are best reflected in the following frequently quoted statement: "The islands cannot be industrialised to anything like the extent that is necessary without a considerable inflow of foreign capital and capitalists, and a period of wooing and fawning upon such people"(Lewis, 1950, p.38).

Lewis was adamant in asserting that the industrialisation of a new country could not be left to market forces but would require specific government action. This action would be of two kinds, the provision of special incentives, referred to above, and the creation of special institutions which would have the responsibility for carrying out the policy. With respect to the matter of institutions he called for the creation of a regional Industrial Development Corporation. This agency, even though it would be responsible to government, would have to be granted a substantial degree of autonomy to enable it to function effectively. Not only would the Corporation have the

responsibility of bringing to the attention of business firms the incentives available in the form of tax holidays and subsidies, it would have to be provided with the funding sufficient to engage in providing additional incentives, such as low cost factory buildings, capital equipment and serviced industrial estates. It would also be necessary to complement the Industrial Development Corporation with an Industrial Development Bank. The role of the Bank was to act strictly as a lender of last resort since the emphasis was on attracting foreign capital to the region.

Although emphasis was placed on the importance of providing incentives to attract industries, it was recognised that it might be necessary as well to combine the incentives with the potential penalty of loss of access to markets in the region. Consequently, he argued that tariffs could be used to restrict market access. This, it was recognised, might have the potential negative consequence of encouraging inefficient local production. Nevertheless, foreign firms faced with the potential loss of markets might be induced to establish branch plants which, after a time, might become involved in export production.

In summary, Lewis set out to challenge what he regarded as conventional thinking concerning appropriate economic policy for the region. At the same time he stated explicitly that, if the policy initiatives he recommended were to be effective, there would be a need for innovations at the political level and in terms of institutions. This was reflected in his unqualified assertion that industrialisation in the region could not be of any real significance in the absence of a customs union, a political federation and the associated regional institutions.

### **Trade, Integration and Economic Transformation**

The decade of the sixties witnessed an emphasis on the part of Caribbean intellectuals to identify what was the cause of underdevelopment in the region, as opposed to concentrating on some of the outward manifestations of underdevelopment, such as high levels of unemployment. A common theme which emerged in this period was that underdevelopment was in large part a reflection on the dependent status of the economies of the region in the global environment. One of the first to attempt to establish a relationship between dependence and underdevelopment was McIntyre. In so doing he drew a distinction between two forms of dependence. The first, structural dependence, was a function of the small size of the respective economies. Consequently, they would have difficulty in insulating themselves from negative external shocks. The second, is what he

called functional dependence. Functional dependence arose from the policy goals chosen and the policy instruments adopted in pursuit of those goals (McIntyre 1964,p.189)

He cited as an example of functional dependence, the time and energy devoted by policy makers in the region to securing preferential market access for traditional export products. He argued that such policies worked to impede economic growth in the region since the preferences were extended for primary products rather than for manufactured goods. Since the incremental comparative advantage of the region rested in the production and export of light manufactured goods, the retention of preferences could work to delay the necessary structural changes. A change in policy direction which would help in this process of structural change would be for Caribbean leaders to devote the time and energy towards regional integration. If such an effort were to be successful, policy makers could not be guided in their decision making by the orthodox theory of economic integration. He then proceeded to highlight what would be the essential element of a theory of integration appropriate for the region. First, such a theory must show an awareness of the fact that Caribbean countries are interested in both the short and long-run effects of integration. Second, it should underscore the principle that a main aim of integration is to allow countries to achieve a higher rate of growth and not an equalization of growth rates, or income per capita. Third, since Caribbean economies differ significantly in terms of size, resources and levels of development, arrangements for integration in the region would have to be designed to accommodate these differing needs (McIntyre 1964, pp.206 - 207).

He concluded that a scheme for regional integration which could accommodate the interests of all Caribbean territories would require governments to take action which went beyond mere tariff reduction. Among other things, they might have to agree to participate in schemes of joint planning, investment and negotiation, in order to mobilize all the resources of the region for accelerated development.

Following McIntyre, there were several contributions by eminent Caribbean thinkers who were also concerned with developing novel theoretical constructs to guide developmental policy initiatives. Demas, in his significant contribution to this goal, "The Economics of Development in Small Countries", adopted Rostovian terminology in defining development as the realization of self-sustained growth. He then proceeded to highlight some of the characteristics of small

economies and, in addition, some of the unique characteristics of small Caribbean economies, which stood in the way of the realization of self-sustained growth. Among the factors to which special attention was directed were the following. The dualistic structure of the economies, reflected in the dichotomy between plantation agriculture and peasant agriculture, the high ratio of foreign trade to Gross Domestic Product and the domination of the export trade by a single product. In addition, the almost complete absence of domestic inter- industry transactions and the dominant role of foreign capital in the leading sectors of the respective economies. These structural characteristics were seen to stand in the way of development and development would not be possible without a structural transformation of the economies. In his words " Structural transformation is therefore an indispensable element in self sustained growth" (Demas 1965, pp 116 - 117).

The small size of Caribbean economies was seen as a major impediment to the process of structural transformation. He listed a wide-ranging set of initiatives which could assist in this process with trade and integration playing central roles. Given the small size of domestic markets, the manufacturing sector would be able to make a significant contribution to the process of structural transformation only if it were geared to service extra - regional markets. Regional integration would partially ease the size constraint and facilitate the process of structural transformation. He cites, in this regard, the potential benefits which could be derived from working out agreements permitting countries to specialise in activities for which they are particularly well suited.

The emphasis placed by McIntyre and Demas on the need to identify the fundamental causes of underdevelopment and develop appropriate theoretical constructs to meet the unique requirements of the region was vigorously pursued by academic economists associated with the New World Group at the University of the West Indies. They, in line with the thinking of Demas, saw the lack of social cohesion, the absence of significant linkages between various sectors of the economy, as well as the existence of social and economic institutions designed to serve sectoral as opposed to national needs, as the principal obstacles to development. These socio - economic factors were linked to the legacy of the plantation system( Best, 1968; Levitt and Best, 1969; Beckford, 1972) and the dominant role played by transnational corporations in the economies of the region (Girvan, 1967, 1971; Girvan and Jefferson, 1968). Their conclusions with respect to the causes of underdevelopment was very much



in keeping with that of the latin-american Dependency School reflected in the writings of Sunkel, Furtado and Dos Santos. They saw such strategies as the 'industrialisation by invitation' advocated by Lewis as simply working to reinforce the structural weaknesses contributing to the perpetuation of underdevelopment.

A theme which was pursued through various issues of the *New World Quarterly* was that real development would require a complete socioeconomic transformation of countries in the region and regional integration could play a critical role in facilitating the types of policy initiatives necessary to affect the transformation. In the words of two of the most prominent academic thinkers of the period, Brewster and Thomas, regional economic integration had to be seen as "an integral part of the theory of social and economic transformation and not simply of the micro economics of static location theory"( Brewster and Thomas, 1967, p.2).

A series of studies was produced during the sixties geared towards addressing the structural weakness arising from weak inter sectoral linkages, the dominant role of the transnational corporations, the heavy reliance on food imports and lack of competitiveness in the traditional agricultural exports. In all instances a regional approach was deemed to be critical in formulating policies for overcoming these shortcomings. Brewster and Thomas argued that there were within the region all the critical materials requires for an integrated advanced industrial structure( Brewster and Thomas, 1967, pp. 129 - 140). They then proceeded to argue that through planned sectoral integration, resources could be pooled to establish regional industrial complexes which could operate to deepen and strengthen the structure of production in the region.

In adopting this approach Brewster and Thomas, unlike Lewis and Demas, placed considerable emphasis on the role of import substitution on a regional basis in the development of manufacturing. This was designed to show that there were existing industrial opportunities which could be exploited in the short term while maintaining a high degree of competitiveness with respect to quality and cost of production, without having to cope with all the difficulties associated with securing extra - regional markets (Brewster and Thomas, 1967, p. 61).

Other studies highlighted the critical role of regional collaboration in reducing the dependency on food imports(Guscott and Beckford, 1967), enhancing the contribution of the bauxite to income and employment (Girvan, 1967) and the competitiveness of the banana industry(Beckford,

1967). Beckford and Guscott argued that many of the food products which were imported from extra-regional sources could be easily produced in the region. The difficulties in the way of promoting regional trade in these items could be overcome by establishing a Regional Agricultural Trade Commission, which could coordinate the activities of government marketing agencies and deal with issues such as grading and other quality standards, transportation problems and dissemination of market information.

Girvan showed how by exploiting the hydro-electrical potential of Guyana and Suriname, the region could move into the smelting of aluminium and the fabrication of aluminium products. Beckford indicated that through regional collaboration, export substitution, a concept introduced by McIntyre, would make it possible for the Jamaica to relinquish a share of its banana export market to the relative more efficient growers in the Windward Islands, in return for expanded markets for its manufactured exports.

All of these proposed initiatives called for governments to play a central role in economic activity. This reflected the scepticism of the authors of the initiatives towards the relevance of orthodox economic theorising for dealing with the problems of the region. However, most governments in the region at that time were not philosophically inclined to assume the major role in the economy implicit in the strategies proposed by those economists. They were quite willing to accept, in principle, the idea that there was value to a greater degree of economic collaboration on a regional basis. In 1968, the initial steps were taken in that direction with the establishment of the Caribbean Free Trade Area (CARIFTA). In the words of William Demas, the Secretary General, the establishment of CARIFTA "marked the beginning of an attempt to devise Caribbean instruments to deal with the economic problems of the Caribbean Region, after centuries of reliance on instruments and initiatives of external origin" (Commonwealth Caribbean Regional Secretariat, 1971).

The CARIFTA agreement was a standard free trade agreement. The treaty did not embody any of the elements which had been identified by the leading thinkers of that era as essential in facilitating the process of economic transformation. There were no provisions for regional industrial programming. There were two instruments for the harmonisation of agricultural production and trade under the Agreement. These were the Agricultural Marketing Protocol and the Oils and Fats

Agreement. Both of these instruments were designed to regulate prices for specified products and allocate markets for them among the participating countries on the basis of declared surpluses and deficits. These measures did not contribute in a significant way to regional import substitution in food (Chernick, 1978, p.20).

The CARIFTA agreement did provide a stimulus to regional export trade in manufactured products from countries like Jamaica and Trinidad and Tobago, which had established a small manufacturing base centred on the production of consumer products. This helped to sustain support for regional integration and provide the momentum for a further deepening of the integration process. This culminated in 1973 when Barbados, Guyana, Jamaica and Trinidad and Tobago signed a treaty establishing a Caribbean Community and Common Market (CARICOM). In the following year all the remaining CARIFTA members acceded to the Community Agreement.

The CARICOM agreement embodied those features which were clearly more in keeping with the thinking of McIntyre, Demas and other leading Caribbean economists, on the special role economic integration could play in the process of nation building and economic transformation. The concept of the Community covered functional cooperation, foreign policy coordination and economic integration. The dimensions of economic integration were set out in a special Annex to the Treaty. The principal elements were the following.

1. The creation of an integrated regional market for goods through the adoption of a Common External Tariff and a Common Protective Policy.
2. There was agreement that there should be:
  - (a) coordination of national development planning, regional industrial programming and the rationalisation of regional agriculture;
  - (b) the joint development of regional natural resources and regional consultation in monetary, balance of payments and exchange rate policies;
  - (c) the harmonisation of fiscal incentives to industry;
  - (d) intra - regional tax harmonisation and double taxation agreements;
  - (e) the harmonisation of commercial legislation including company laws;
  - (f) the formulation of a process list as a criterion of the establishment of the origin of goods.
 These were all set out to promote coordinated regional development.

3. There was a provision for the negotiation of external trade agreements on a joint basis.
4. The formulation of a regime for the less developed member countries(Chernick,1978,pp. 35,36).

By the end of the decade of the seventies it was evident that the agreement was not living up to the promise of facilitating the process of economic transformation considered essential for development. There were no major changes in the types of products which dominated intra - regional trade. The manufactured exports from Jamaica and Trinidad and Tobago continued to consist of consumer goods heavily dependent on imported inputs. The hoped for rationalisation of trade in agricultural and mineral products was not realised. Governments seemed incapable of implementing the decisions necessary to set in motion projects for co-ordinated and joint efforts in production. A notable example of this shortcoming was the failure to implement the regional food plan agreed to by the Heads of Government in 1975. This plan had set out in a detailed fashion, items to be produced, production targets and the allocation of production among member states. It was also the case that member countries failed on a number of occasions to fulfil their commitments to consult their CARICOM partners before entering into trade and economic agreements with non members.

However, in reflecting on the limited achievements towards integration in that period it was pointed out that regional integration cannot substitute for national effort in development( The Caribbean Community Secretariat,1981, p.20). Bearing that in mind, it would seem reasonable to argue that many of the failures outlined above might be linked to the virtual collapse of the economies of Jamaica and Guyana in the latter half of the decade of the seventies. Both countries had virtually exhausted their foreign exchange reserves and were obliged to impose stringent restrictions on imports. Since, as indicated above, consumer products tended to be the major items traded in the region, their trade restrictions in response to their balance of payments problems tended to fall disproportionately on their trading partners. Moreover, the economic crisis forced these countries to seek support from the International Monetary Fund. As a result, policy decisions were no longer at the sole discretion of the respective governments. In light of these circumstances, it is rather doubtful, that many of the initiatives in the areas of industrial programming and joint production arrangements, in which government would play a central role, would be favourably

viewed by an institution which did not generally consider such an activist role for government to be appropriate.

### **Trade and Integration in the Post 1980 Era**

There were a number of significant internal and external developments which have had an impact on thinking about the role of trade and regional integration, since 1980. There was the radical change in political direction in Jamaica with the election of the Seaga government. That government saw the economic malaise being experienced by the country as arising from the policies of the Manley government and its reliance on a state directed strategy of economic development. There was also the direct intrusion of the multilateral institutions, in particular, the International Monetary Fund, in the decision making process. This provided the impetus for a return to economic orthodoxy in policy formulation. These institutions aggressively promoted the view that the solution to the economic problems of countries in the region could be found in the adoption of an outward looking economic strategy, centred on economic deregulation, export promotion, privatisation of state enterprises, and the liberalisation of the financial sector. In addition, the failure to make any substantial progress on collaborative production initiatives at the regional level, led to a growing disillusionment with regional integration as a significant feature of development strategy. Finally, the US election of 1980, brought to power a president with a conservative agenda and who was concerned to see that developments in the Caribbean region were consistent with his agenda.

As a result of these developments, very little attention was directed towards the pursuit of regional import substitution initiatives. Interest seemed primarily focussed on trade strategies concerned with the production and sale of manufactured products to extra - regional markets. Emphasizing production for extra - regional markets brought to the fore the need to place emphasis on a set of complementary policy initiatives geared towards ensuring the international competitiveness of domestic enterprises. This approach was supported even by the strongest supporters of regional integration. For example, the group of Caribbean experts who were asked to review the workings of CARICOM in the early eighties, argued that there was limited scope for national and regional import substitution in the manufacturing sector. Consequently, priority ought to be given to the formulation of a strategy for production geared towards extra regional markets (Caribbean Community Secretariat, 1981).

Given that domestic firms engaged in the production of non traditional manufactured products would not be able to compete on an equal footing with more established firms from other countries in extra regional markets, a great deal of attention was directed towards ways of securing access to such markets on a preferential basis. There was some success realised in this regard with the maintenance of preferential access to European markets with renewal of the Lomé Convention preferences. There were also the limited preferential access to the United States markets gained through the Caribbean Basin Initiative. Apart from that, there was also the scope for countries in the region to exploit their labour cost advantage by the incentive provided by sections 807 and 806.3 of the US customs tariff for firms to locate their labour intensive activities overseas. In addition, there was the CARIBCAN agreement providing preferential access to Canadian markets for a limited range of Caribbean products.

The Caribbean Basin Initiative never lived up to the expectations of either the governments in the Caribbean or that of the United States. At the time of the announcement of the initiative, the US economy was experiencing its worst recession in fifty years. Many traditional industries had been forced to close in the face of strong overseas competition. This gave rise to an upsurge of protectionist pressure in the US and led to very limited increases in access to markets for Caribbean products. Moreover, a strategy based on maintaining preferential access to markets rests on a very shaky foundation since such preferences can be terminated entirely at the discretion of the foreign country. The very short term success achieved by Jamaica in exporting garments is indicative of the fragility of such a strategy. Furthermore, even in instances where there might be a labour cost advantage which can be exploited to establish an export position, such as was the case with the exports of semi conductors from Barbados, the country can still be vulnerable to the whims of corporate decisions.

In spite of the preoccupation with the so called 'outward looking' development strategy at the governmental level, there were those who continued to argue that regional integration had an important role to play in the development of countries in the region. For example, the Working Group on Economic Integration, established by the Association of Caribbean Economists in the late eighties, identified regional food security, deepening of the industrialisation process and expanding the competitiveness of Caribbean Economies, as important development objectives which could be

furthered through regional collaboration( Samuel,1990,p.8). Furthermore, apart from these traditional arguments, there was an emerging consensus that there was a constellation of international factors which made it important to advance the regional integration process. These were:

- (1). The developments in the advanced market economies which strengthen the trading blocks of developed countries at the expense of the less developed countries. Specifically, the US - Canada free trade agreement, the move towards a single market in the EEC, and the Uruguay Round of tariff negotiations.
- (2) The developments within UNCTAD and the Group of 77, toward greater South - South Cooperation and the emergence of the concept of collective self reliance as a strategy for the economic transformation of countries of the South.
- (3) The effort of the US government to use aid as an instrument to promote integration in the region (Samuel,1990,p.7).

In light of these developments, it was believed that more attention had to be paid to ways in which the integration movement could be widened to incorporate non English-speaking Caribbean countries. This was in large measure a reflection on the view that with the trend towards larger trading blocs, CARICOM was too small to play an effective role in promoting the interests of the existing member countries. At the same time, since such a widening would mean the inclusion of countries with different political status, as well as different languages and culture, at the initial stages the new participants could not be expected to adhere to all the CARICOM agreements. As Samuel pointed out, a precedent for such differences in levels of cooperation within the integration movement already existed in CARICOM with the OECS countries practising a higher level of cooperation between them than with the rest of CARICOM. He concluded that what might emerge is a series of concentric circles which represent different levels of cooperation in the integration movement with some of the new participants being involved in nothing more than a customs union(Samuel,1990, p.44).

The Working Group, as Brewster and Thomas had done twenty years earlier, identified a range of economic activities which were suitable candidates for intra - regional trade and investment. However, while it is certainly useful to identify such a range of activities, it is also important to give

some thought to the way in which productive entities could be mobilised in support of such activities within the region. In the earlier period it was expected that the state would play a central role in the mobilisation and allocation of resources on a regional basis. The Working Group clearly recognized that such efforts would be centred on private sector initiatives. Hence, as Girvan pointed out, an effort should have been made to identify particular Caribbean owned enterprises, which having developed firm specific competitive advantages, might become the basis for investment and/ or trade within other markets in the region(Girvan,1990,p.6). On a more general plane the issue is one of devising a strategy for energising and mobilising the private sector to become actively involved in the regional integration effort.

The emphasis on economic liberalisation and private sector led economic development led to a serious reconsideration of the role of regional integration for the development of the region. For example, the group of experts called upon to review the functioning of the Caribbean integration movement in the early eighties concluded that regional integration could only make a contribution to development in a situation where the individual member states pursued sound economic policies. This led to the emergence of what Brewster has referred to as the national model of regional integration(Brewster, 1992a). The governments of countries in the region continued to maintain a strong verbal commitment to Caribbean integration. However, their conduct of policy seemed reflective of a view that economic development was most likely to be secured through their individual efforts. They looked at what CARICOM could contribute to their efforts rather than it being the collective saviour of the region. The failure of the model to yield the expected results was attributed to negative external factors and the political difficulty of implementing appropriate domestic policies.

The decade of the nineties opened with a major initiative to deepen and widen the process of regional integration. Arising from the meeting of the Heads of Government in 1989, a West Indian Commission was established with a mandate to formulate proposals for advancing the goals of the Treaty of Chaguaramas. The Commission was to present its proposals to the Heads of Government prior to their meeting in July of 1992. The Commission held to the view that Caribbean integration was the best path to economic and political viability, survival and development of the region. The essence of this model was that the Caribbean whole was



substantially and decisively greater than the sum of its parts, but in the final analysis the countries in the region could not expect to rely on external political and economic relations for survival, independence and progress.

The Commission gave strong support to the goal of creating a single market and the adoption of a common currency as vital elements in strengthening the Community. There were also a series of proposals related to ways of improving regional cooperation in a number of functional areas, as well as in the establishment of common services. There were proposals for the widening of CARICOM through trade and economic relations with other Caribbean and Latin American countries. The recommendations of the Commission were very much in keeping with the views of the Working Group referred to in the previous section.

However, there also emerged, during the period, a break with what might be thought of as a consensus on the role of regional integration in Caribbean development. Brewster, a strong critic of the approach of the West Indian Commission, argued that its recommendations with respect to market integration reflected a lack of understanding of the implications of changes in the international environment. He suggested that access to external finance, technology, research and development would be increasingly tied to arrangements determined by global competitive advantage. A unified regional market would not be viewed as a decisive advantage by corporate decision makers. Regional resource linkages and complementation would not make for competitive advantage on a global scale. Consequently, the emphasis on the single market was misplaced. Emphasis should be placed on the more important issue of promoting economic and human resource development policies, physical and technological infrastructure and services that would be attractive to international and domestic enterprise (Brewster, 1992a, pp.5,9).

Other critics have questioned the relevance of integration arrangements in a context of globalization of production where emphasis is placed on accelerating the removal of restrictions on trade, services, investments and international capital flows, reflected in such developments as the agreement to establish a World Trading Organisation, as a successor to GATT. There are those who have dismissed this criticism on the grounds that a truly open global system is unlikely to emerge in the foreseeable future. They argue that, even in such an event, there would have to be a transitional period for CARICOM type countries since they would not be able to extend full

reciprocity to more developed countries and survive (Demas,1997 p.108). On the other hand, the case for integration, among other factors, has always rested on the perceived contribution it could make towards enhancing productive efficiency. To that extent, if the trend is indeed towards a truly open global trading system, anything which will help to enhance productive efficiency and hence the international competitiveness of the region will be of critical importance.

There are also those who challenge the notion that the economic size of the area in any way approaches the critical mass required for efficient production. They argue that the only justification for regional integration is that it is the most attractive means available for getting enlarged trade, aid and financial and debt relief benefits from the United States. This is the case in that the dominant members of NAFTA, the United States and Canada, are more likely to admit the countries of the region into the free trade area as a single unit, than as individual applicants. Finally, there is the view associated with the World Bank that there were little or no benefits to be derived from regional integration. Rather, there would be benefits if it facilitates progress in integrating the Caribbean into the world economy and not merely into the North American economy. This is based on a view that CARICOM was too small to be the source of large dynamic benefits. At the same time, its attempt to foster development behind protective barriers and discriminatory policies was costly. It did foresee some advantages from the regional coordination of policies in such fields as payments clearing, monetary policy and taxation (Brewster, 1992a, pp.3,4).

Apart from its role in contributing to economic development, there was a growing trend towards emphasising the benefits from regional integration which extended beyond economic considerations. As early as 1981, the group of experts set up to review the working of CARICOM had made a point in arguing that, "..CARICOM is not just about intra - regional trade, joint efforts in production and in external economic relations and functional cooperation, but is a community of Caribbean States and peoples ...its real strength, in our view, derives from the feeling of community at the level of the people of the region(Caribbean Community Secretariat, 1981,p.108). Later in the decade, Girvan, argued that integration is a process and that the process consists of growing social, cultural, economic and political interaction among Caribbean peoples. The objective of that process is to enhance Caribbean identity and sovereignty vis a vis the rest of the world. Integration as a sovereignty enhancing process was not seen as an end in itself. Rather, it is a means to a wider end,

namely, that of increasing the capacity for autonomous action on the part of Caribbean societies, and ultimately, of the people of the region (Girvan, 1990, pp.4,5). The notion that integration was essential to enable countries in the region to take autonomous action is consistent with the position he had taken twenty years earlier. At that time the underdevelopment of the countries of the region was attributed to their overall position of dependency in the global economy.

Brewster, however, saw integration as a process of promoting cultural and national identity as an end in itself. He characterised the existing CARICOM arrangements as second best in that they were entered into because there seemed to be obstacles to the best, such as uneconomic scale, high costs of production and external protection, while as a consequence involving net costs for some members. He went on to argue that "...the best, the unique, most lasting rationale for Caribbean Community is cultural identity and kinship...West Indian identity needs to be enhanced through forms of expression people can respond to and value with pride, self esteem and confidence. The best centre of this might be a West Indian Commonwealth" (Brewster, 1992a, p.15).

Brewster's implicit belief that one can find within a broad cross section of the population in the region deep-seated aspirations for unity is highly questionable. In fact the attachment to regional institutions, such as the University of the West Indies, and identification with such entities as the West Indies cricket team arises from evidence of realizable benefit and in the case of the cricket team it seems more a matter of attachment to a tradition. It is interesting to note in this regard that there has been no effort made to establish regional teams in other areas of sport. There will be a strong aspiration for unity only when the minority who are strong supporters can demonstrate in ways which are understandable to the population at large the concrete benefits of integration. As a result to dismiss the economic case for integration leaves very little of substance. The concept of a West Indian Commonwealth while potentially having some symbolic appeal to the minority outside the Eastern Caribbean who travel frequently within the region, could emerge as a substantive issue only to the extent that it can be seen as helping to promote economic development.

It has long been recognised that CARICOM, with a population of six million people is still a relatively small market area, and hence could not be a base for many efficient productive enterprises. Furthermore, it has been argued that it may be too small to be an effective defender of regional interests. As a result the issue of the need to widen the community has always been present

although not prominent in discussions on Caribbean integration. A widening of the CARICOM to incorporate other countries in the Caribbean has been viewed as something which should be approached with caution. This stemmed from the fact that all the CARICOM countries have a small population compared with the countries of the Greater Antilles. There was also the matter of wide differences in constitutional and administrative character between the countries and territories of the archipelago. Consequently, there was a consensus that widening to incorporate these countries would have to progress in stages, starting initially, with full or partial free trade (Demas,1997,pp. 67 - 69; Samuel, 1990,p.44).

This approach to a widening of CARICOM has been vigorously pursued in the nineties. Relationships have been established with other countries and preferential groupings in the hemisphere. These include participation in the Association of Caribbean States, negotiations with MERCOSUR, the Common Market of the South, the negotiation of an agreement with Columbia on trade, economic and technical cooperation, and the 1998 free trade agreement with the Dominican Republic.

Steps were also taken to establish a common bargaining position to cope with the new challenges to maintain and expand the external trade of the region arising from NAFTA, the termination of preferential access to the European Union with the cessation of Lomé convention preferences in the year 2,000, as well as those associated with the proposed Free Trade Area of The Americas.

### **Reflections on Caribbean Contributions to the Role of Trade and Regional Integration in Development**

Over the past fifty years there has been a consensus that economic diversification is essential for the economic development of countries in the region. Given the small size of the individual country markets, successful diversification could only be realised by directing productive efforts towards penetrating extra - regional markets. It has also been the case that regional integration has been seen as making an important contribution to raising levels of productive efficiency in the region to international standards. Lewis in the fifties thought economic diversification centred on production for extra - regional markets could be realised by a strategy geared towards attracting foreign manufacturing firms to the region. In order to encourage foreign firms to locate in the region

it would be necessary to offer an attractive package of incentives. Countries, such as Jamaica and Trinidad and Tobago, did use incentive measures in an effort to promote industry. However, in formulating their incentives, insufficient attention was paid to the warning by Lewis that if industrialisation was to make a meaningful contribution to development, the plants established must be engaged primarily in export production. In fact, both countries had pursued what amounted to a policy of import substitution.

Over time, as the limitations of an import substitution strategy become increasingly evident, there has been a considerable degree of energy devoted to the issue of securing access for producers to extra - regional markets on a preferential basis. Success was realised in securing access to the European market on preferential terms under the Lomé convention and the United States and Canadian markets under the Caribbean Basin Initiative and CARIBCAN, respectively. These preferential arrangements were all extended on limited terms subject to renewal. Over the course of these agreements countries in the region have found themselves in the embarrassing position of not being able to produce the quantities they were entitled to sell. It might be argued that in devoting so much energy towards securing access to external markets on preferential terms, insufficient attention was directed towards dealing with the issue of raising productive efficiency.

It appears to be the case that in many of the less sophisticated labour intensive products, which are usually thought of as ones in which the region could establish an export position, regional producers are not competitive internationally. Labour costs are high relative to those in many Asian and Central American countries. This is not to say that the region should totally disregard these sectors. There still remains the possibility of securing niches within these sectors where products could be marketed on the basis of unique regional characteristics based on quality and style. Success in this regard will in large measure depend on the extent to which producers are able to keep abreast of technological advances and absorb and adopt technology to local conditions. This, in turn, requires a concerted effort aimed at improving the overall level of managerial and technical skills. This could be complemented by joint government private sector efforts to secure licensing arrangements with firms which are established technological leaders.

There is still the unresolved issue of how to deal with the uncompetitive traditional exports, such as sugar and bananas, given the likely termination of existing preferential marketing

arrangements. In the face of this development, the current strategy seemed centred on trying to delay the ending of the preferential arrangements by making a case based on the severe economic and social dislocation likely to occur. While there is clearly merit in adopting such a stance, the issue must be squarely faced as to whether there is any real likelihood of placing these sectors on a competitive basis. McIntyre pointed out more than thirty years ago that the energy devoted to maintaining preferential markets for these products diverted attention away from dealing with the more important long term issue of economic diversification. There is an urgent need to give consideration to alternative uses for these lands for production of new products geared to regional or extra regional markets.

. The economic case for regional economic integration has been more than adequately validated by several technical studies indicating the ways in which mobilisation of resources on a regional basis would make it possible to extend the range of manufactured and agricultural products which could meet standards of international competitiveness. In spite of this, hardly any of these regional production enterprises have come to fruition. In some instances this might be attributed to a failure on the part of governments to implement critical agreements. This has also been attributed to the fact that this integrated production approach calls for the relative free movement of resources across countries. The CARICOM treaty constrains the movement of resources and national governments are reluctant to have their materials processed outside of their countries. It has been suggested that a greater measure of success in regional cooperative productive efforts might be realised through production coordination as opposed to production integration. In the former, cooperation in production links together through trade and technical cooperation, complementary production in disparate small and medium sized enterprises. It minimizes the movement of factors across countries and builds on productive structures already in place( Samuel,1990, p. 60,61).

It would seem that one of the principal shortcomings in the proposals concerning extra regional trade and regional economic integration has been a failure to properly address the issue of how to engage those who will actually be involved in the production process. It is too often the case that such proposals emanate from technicians drawn from the bureaucracy and academia with virtually no direct private sector involvement. This might in part explain why in many instances the proposals on trade and production initiatives are good in terms of highlighting what ought to be

done and is more often than not lacking in how these objectives might be realised. Brewster in his critique of the recommendations of the West Indian Commission argues that while most of the recommendations make good sense, they were expressed in terms of what should be adopted or initiated rather than in terms of specific operational mechanisms for translating ideas into action (Brewster, 1992b, p.2). William Demas, in listing what he deemed the critical issues in Caribbean development stated that the state should work with national and extra regional private sectors to promote production aimed at the extra regional export market (Demas, 1997 p.14). There was, however, no elaboration on a strategy which could support such initiatives.

Given the primacy which is now attached to the role of the private sector in the economy of countries in the region, there is a need for more direct private sector involvement in the formulation of a strategy for extra regional export promotion. The difficulty here is that most of those engaged in the production of what might be considered non traditional items, on which such a strategy would be based, have geared their operations to domestic and in some instances the regional market. They, by and large, lack the knowledge and to some extent an interest in penetrating extra regional markets. Consequently, governments will have to play a more aggressive role in export promotion by constantly pressing producers to come up with items for which there might be an extra regional market and, as is becoming increasingly common, initiate more joint government / private sector sales promotion trips to targeted market areas. In addition, there is a need to restructure trade promotion efforts in the major centres in North America, Europe, Asia and Africa, from performing a purely passive information providing function, to a more activist function in seeking out opportunities with retailers and producers. The trade promotion offices in these centres should be staffed with two kinds of specialists. One group should have expertise in identifying and establishing contacts with retailers who would market products from the region. The second group would be industry specialists whose job would be to seek out potential sub contracting production arrangements. In view of the costs involved in such an operation, there would be a clear benefit to joint regional representation.

In essence, whether one is talking about achieving success in promoting extra regional exports or in implementing a regional import substitution policy, it will be essential to create an environment in which these endeavours are seen as highly remunerative. One has to go beyond

technical feasibility studies to harness the necessary productive effort. As in any other area of activity, such effort will be forthcoming if producers are convinced their efforts will be rewarded. Such will be the case if secure marketing arrangements are in place. In addition, in order to demonstrate the importance attached to export production, there would also have to be an appropriate package of fiscal incentives.

The promotion and defence of the interests of countries in the region is now seen as a major justification for regional integration. It is believed that negotiating as a single entity will enhance the prospects for securing access to the markets of North America and Europe, on terms which reflect the special circumstances faced by Caribbean producers in the production of traditional exports, such as sugar and bananas, and in manufactured products such as textiles and garments. However, securing access to markets will only be meaningful if producers are able to take full advantage of the opportunities provided. There remains the question of the role which regional integration can play in helping overcome the production deficiencies.



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