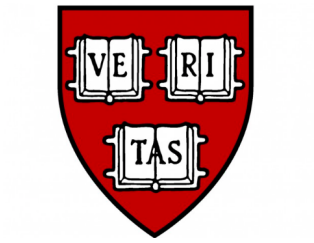

The Political Economy of Caribbean Regionalism in the Twenty-first Century: Rebirth or Resuscitation?

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A Thesis in the Field of Government

for the Degree of Master of Liberal Arts (ALM)

Harvard University

November 2012

Abstract

Although the states comprising the English-speaking Caribbean have much in common, integrating them politically and economically has proven to be an extremely challenging endeavor. All three integration initiatives since 1958 whether political or economic have failed to deliver their economic development and trade expansion goals. Uncompromising insular political interests of the key participants were at the heart of the demise of the West Indies Federation, the Caribbean's first integration attempt. These interests have continued to be a dominant influence in the outcomes of the later attempts to integrate. Integration efforts have, been hampered by the absence of a strong political commitment to regionalization. Despite the chequered history of Caribbean integration, the Caribbean Single Market and Economy (CSME) were established in 2006. That arrangement essentially provided for a deeper form of economic integration, requiring a higher level of political commitment to integration than ever before.

Specifically this paper seeks to answer the question: is this latest arrangement any different from its three predecessors in terms of its expected results? The following discussion shows that while the concept of the CSME is radically different, the current approach to its implementation is not fundamentally different to that of the three previous ventures. As such, it does not represent the rebirth of Caribbean regionalism but rather, an attempt to resuscitate a politically and structurally flawed development strategy. The renewed ambition to integrate is not matched by the requisite political will and commitment to effectively carry the new venture forward. I use a combination of

historical, political, and economic analysis as the primary methodological approach to test this hypothesis. I conclude that while a renewed political will might have overcome some past hurdles, that commitment still falls far short of the unified force required to create a robust and deeper form of integration that addresses economic and other challenges and keeps the region afloat in the relentless tidal flow of economic globalization.

Author's Biographical Sketch

Curtis J. Raynold is a 1978 graduate of the University of the West Indies (UWI) where he was awarded a Bachelor of Arts degree, majoring in Economics at the university's campus in Cave Hill, Barbados. In 1980, he graduated with a Post-graduate Diploma in International Relations from the Institute of International Relations of the University of the West Indies in the Republic of Trinidad and Tobago.

Mr. Raynold joined the Saint Lucia Government Service in 1978 and served in the Ministry for Foreign Affairs as a Foreign Service Officer from 1980 to 1985. In that capacity, he covered the Economic Affairs desk and participated in numerous CARICOM meetings and other regional and international conferences where he represented Saint Lucia's economic and trading interests. In June 1985, he was recruited by the United Nations after successfully taking the United Nations' National Competitive Examination in Economics, an initiative to recruit young professional staff from under-represented Member States of the United Nations. Mr. Raynold was subsequently assigned to the Office of the United Nations in Vienna, Austria. Since July 2004, he has been a Political Affairs Officer in the Office for Disarmament Affairs (ODA) at the Headquarters of the United Nations in New York.

Dedication

I wish to dedicate this work to my family, in particular my wife, Dawn Edwards-Raynold, for her support, encouragement, and patience over the last few years as I pursued the Master of Liberal Arts (ALM) program. I dedicate this work also to my son and daughter, Dhelon and Derissa Raynold, for their encouragement, especially at times when this seemed an impossible and daunting task. Let the completion of this work also inspire my children and serve as an example of what they too can achieve through perseverance and hard work.

Special mention must be made of my mother, Josephine Raynold, who, despite her own lack of an advanced education, fought tirelessly and, sometimes, against seemingly insurmountable odds, to ensure that I was able to obtain an education that gave me access to the career and academic opportunities with which I have been blessed with over the years.

Acknowledgements

Whatever positive contributions that can be derived from this work are due in no small measure to the influence of a small number of dedicated and supportive people.

I wish to acknowledge the contribution of Dr. Donald Ostrowski, Lecturer in Extension at the Harvard Extension School, who served as my Thesis Advisor. I appreciated very much his meticulous review of my research proposal and thesis and, most of all, his continued support throughout the entire process.

I wish to thank my Thesis Director, Professor David E. Bloom, the Clarence James Gamble Professor of Economics and Demography at the Harvard School of Public Health (HSPH) for taking time from his very busy schedule to evaluate my work.

Finally, I would like to thank my immediate family: my wife, Dawn, my son, Dhelon, and my daughter Derissa for their love, patience and support. They tolerated my frequent absences and travel to Cambridge to attend classes and to conduct research, without question, even though their own lives were sometimes disrupted by all of this.

Needless to say, any failings of this work are entirely my responsibility.

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Chapter 1

Introduction

Although the English-speaking Caribbean states share a common language, similar cultures, colonial heritage, and have each adopted largely homogeneous political institutions, integrating these states politically and economically has proven to be an extremely challenging endeavor. All three previous integration schemes, beginning with political integration under the West Indies Federation (1958-1962), followed in 1968 by economic integration through the Caribbean Free Trade Association (CARIFTA), and subsequently deeper economic integration under the Caribbean Community (CARICOM) in 1973, have, to a significant extent, failed to fulfill their political and economic goals. The uncompromising insular political interests of the key participants of the West Indies Federation have continued to be a dominant influence in the outcomes of future integration initiatives.

Since the collapse of the West Indies Federation in 1962, Caribbean political leaders have largely avoided any further discussion of a future political union but have, instead, pursued economic integration in order to achieve sustainable economic development. The small size of the individual units of the former federation has severely stunted their economic growth and made it difficult to reap the benefits of economic integration. Integration efforts have, however, also been hampered by the absence of a strong political commitment to regionalization in the English-speaking Caribbean beyond the rather thin political rhetoric of some Caribbean leaders. In the late 1980s, however, Caribbean governments revisited the issue of regional integration and pursued the idea of

a “single market” to facilitate the free movement of capital and labor between member states of CARICOM by 2005. The Caribbean Single Market and Economy (CSME) were subsequently established on 1 January 2006 and the scheme now represents the CARICOM region’s newest effort at deepening economic integration. Essentially, it provides for a more cohesive regional response to address increased global competition and intense international regulatory pressures. Is this latest attempt any different from its three predecessors? This thesis will attempt to answer this fundamental question.

The thesis will examine the interactions of politics and economics within and among the various economies of CARICOM member states, focusing on the political and economic stumbling blocks that have hampered Caribbean integration efforts in the past and, more importantly, examining their implications for the future. The objective of this research is to establish whether the new “Single Market and Economy” represents a rebirth of Caribbean regionalism or, rather, just another attempt to resuscitate an inherently flawed development strategy.

The general question this thesis attempts to answer is: what variable(s) differentiate this new integration initiative from the previous integration schemes. More specifically, this research will address the following questions: is there a fundamental distinction in the new Caribbean Single Market and Economy (CSME) that increases its sustainability? What differentiates and at the same time is expected to sustain the CSME?

My hypothesis is that while Caribbean States have been handicapped in their development efforts by small size, a narrow band of exports, and an inability to escape the trauma of their colonial past, it is the distinct lack of real political commitment to regionalization that has significantly hampered the integration process and progress

towards sustainable economic development, thus, relegating the region to a state much like the "plantation hinterland" described by Lloyd Best and Kari Levitt.[1] Nationalism has always been a significant problem for Caribbean integration. The overwhelming influence of the domestic political interests of participants in the integration process has proven to be a significant impediment to the economic integration of CARICOM Member States. If these States hope to achieve some measure of success in their latest integration enterprise, the CSME, policy-makers will first need to directly address this challenge.

To test this hypothesis, I adopt a multidisciplinary approach that includes a historical review to provide context. Historical facts gathered from reputable books, periodicals, journals, and newspapers have been used to highlight the role and the continuing importance of national self-interest in the further integration of the Caribbean region. I consult a wide range of CARICOM reports and other documents relating to various aspects of the Caribbean integration enterprise. Statistical, economic, and other data have also been used to augment historical influences. To further test this hypothesis, this thesis analyzes relevant ideological developments within the Caribbean political elite from the post-emancipation period to the present time. Consideration is given to how the activities of governments in the region have ultimately affected regional cooperation through their effects on patterns of development, economic policy, trade, and investment. The analysis of the following chapters, therefore, focuses on the past three integration initiatives as well as the current integration exercise: The West Indies Federation,

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[1] Lloyd Best and Kari Levitt, "The Character of the Caribbean Economy," in *Caribbean Freedom: Economy and Society From Emancipation to the Present,* ed. H. Beckles and V. Shepherd (Kingston: Ian Randle Publishers, 1975), 408.

CARIFTA, CARICOM, and CSME. Where appropriate, the integration experience of the CARICOM region is compared and contrasted with that of the European Union, frequently seen as the paradigmatic reference point for political and economic integration, as well as with those of other economic and political unions in order to identify the lessons to be learned.

I conclude that the Caribbean's historical legacy has, so far, been marked by a series of missed opportunities, which has made progress towards fully successful economic integration an excruciatingly slow process. The uncompromising domestic political considerations and interests of the participating Governments led to their inability to fully appreciate the potential of economic integration. That, among other factors, ultimately led to the poor results obtained from past integration attempts. I argue that the political will of Caribbean politicians or lack, thereof, will continue to be the most influential variable that will largely determine the prospects for success and sustainability in this latest attempt at deepening regional economic integration through the CSME. The realities of the current international economic and political environment urgently demand that Caribbean decision-makers recalibrate their approach to economic integration. The present pressure to do so could well hold the key to reaching the "critical mass" that could ensure a chance of success.

Political and economic integration are fundamentally acts of national self-interest and self-preservation. While primarily influenced in their regional economic relations by national self-interest, Caribbean political leaders are acutely aware that, in a world of growing interdependence, it is essential for members of the Caribbean community to stimulate and deepen their common regional interests. In seeking to do so, they have

come to realize that their domestic economic development interests might be best served through economic integration. The industrialized societies of Europe have, in contrast, traded with each other for centuries. Over these centuries, however, they have also engaged in many bitter conflicts aimed at reconfiguring the balance of power. Europe's pursuit of economic integration was, as a result, aimed at creating an environment where peace and security would foster the development and protection of trade ultimately leading to economic success, and power. Economic integration initiatives in the English-speaking Caribbean and other groups of developing countries have been driven by the need to enhance economic development through trade creation and, thereby improve social and economic conditions and reconfigure their inequitable relationship with the industrialized world. National leaders in the Caribbean are thus always under pressure to maintain domestic political support by showing success in these areas, particularly in the improvement of economic conditions.

For many years, governments in the English-speaking Caribbean have sought to enhance economic conditions through economic integration with an economic development agenda. In the early days of Caribbean regional integration, policy makers saw economic development as primarily fundamental structural change in an economy through industrialization that resulted in an improved capacity to enhance overall economic and social conditions.[2] As such, the main goal of economic integration in the Caribbean is development. Regional integration is, therefore, seen as one way of realizing this goal, to the extent that it represents an important mechanism through which economic development can be augmented. The Caribbean integration experience,

[2] W. Andrew Axline, *Caribbean Integration: The Politics of Regionalism*, (London: Frances Pinter Publishers, 1979), 8.

however, has been marked by decades of political polarization over the distribution of the gains from economic integration and their potential to augment economic development. Such polarization has resulted in reluctance on the part of individual Governments to take required action at the national level which is later reflected in the poor record of implementation of regional agreements.

Attempts by Caribbean leaders to further regional integration for economic development and trade expansion purposes have been largely ineffective. The Caribbean Community (CARICOM) has, failed to generate significant two-way expansion in intra-regional trade, regional economic growth, and development. The failure of the previous integration initiatives, namely the West Indian Federation and CARIFTA to deliver such integration benefits were even more abysmal. Why has the experiment with economic integration failed so miserably after over sixty years of trying? Several reasons have been advanced as contributing factors to the poor results. These include small market size, extremely open and dependent economies, and intraregional conflict between the least developed countries (LDCs) and the more developed countries (MDCs) of the Caribbean over the relative benefits of integration. This study will show that while all these factors have constituted major challenges to the Caribbean's efforts to pursue effective economic integration, the absence of a strong political will to integrate has been a significant factor contributing to this failure. The lack of political will has been manifested initially through negotiating strategies marked by intraregional rivalry and conflict over the economic benefits of economic integration and subsequently by sluggish implementation once agreement has been reached.

An effective analysis of the politics of regional integration in the Caribbean requires an understanding of certain basic principles of economic integration that underlie the outcomes of both normative and positivist political analysis. Chapter III of this thesis identifies these principles, their economic outcomes and, in so doing, lays the basis for political responses at the national and regional levels. The theory of economic integration, a derivative of neoclassical welfare economics, predicts higher levels of welfare through trade liberalization and the exercise of comparative advantages. It was with this in mind that several English-speaking Caribbean States entered into an arrangement known as the Caribbean Free Trade Association or CARIFTA in 1968. The participating states envisioned at the time that the liberalization of trade between them would ultimately lead to economic development through industrialization as the demand for exports increased. Facilitating this process, however, would require the elimination of political barriers to economic activity within the group and therein lay the problem for the participating states. Andrew Axline, in his seminal work entitled "Caribbean Integration: The Politics of Regionalism," suggests that economic integration and its connection to development objectives have far-reaching political implications, particularly for the developing countries of the Caribbean region. He warns that "the type of economic integration that is most likely to contribute to development has obvious political implications"[3] and hints at the inevitability of political conflict if integration for development purposes is to be implemented. In the context of underdevelopment, characterized by conditions of scarcity and underlying nationalism, each participant in the

[3] Axline, *Caribbean Integration*, 32.

integration process, he predicts, will adopt a rather insular approach in regional negotiations toward integration as will be seen in the following chapters.[4]

The earliest initiatives to integrate the English-speaking Caribbean described in Chapter II goes back to 1947 with the first of a series of negotiations for a federation of British West Indian islands. While the West Indies Federation, finally established in 1958, was primarily a political union of self-governing British Caribbean colonies with economic integration playing only a secondary role, many of the underlying political and economic problems that beset it, provide valuable lessons for present-day analysis. This union of ten colonies was established through the efforts of local, radical politicians in order to present a united front to the British government in negotiating political independence from Britain.

The negotiations to establish a federation revealed a number of national concerns among the negotiating partners on the modalities of such issues as free trade, the establishment of a customs union, and a federal tax policy. These concerns dominated the negotiating strategies of the prospective federal partners and would continue to negatively influence the Caribbean integration process during the existence of the Federation. The issues of free trade, the establishment of a customs union continued to be debated in the context of subsequent integration initiative for many years after the demise of the Federation. The conflicting interests of the various islands dominated the discussion of free trade. They had all determined that their individual industrial development was a priority and that conflict frequently pitted the MDCs against the LDCs and vice versa.

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[4] Axline, *Caribbean Integration*, 32.

The West Indies Federation was finally established in 1958. It consisted of 10 Caribbean territories, all colonies of Britain. This group of colonies operated as one political unit, sharing one parliament, a Governor-General, a Prime Minister, and one Cabinet of Ministers. Tellingly, the conflicting economic aspirations and domestic societal pressures in each territory and the political advances towards political independence in some islands prior to the establishment of the Federation set the tone for its immediate decline. The Federation collapsed in 1962 when Jamaica withdrew from the union and, shortly thereafter, attained political independence from Britain on its own terms. Trinidad followed in quick succession. This early attempt at a political union was, at the outset, doomed to failure as it was predicated solely on the attainment of self-government under a federation.[5] Caribbean unity was not then being sought as an end but as the means to an end: political independence.

Despite the failure of the region's first attempt at political and economic unity, it was very clear to Caribbean political leaders that they should, at least, come together again in some form of regional grouping to continue to pursue their economic development goals. Chapter V provides an overview and analysis of the results of these leaders' efforts to reunite. The Federation was followed in 1968 by the establishment of the Caribbean Free Trade Association (CARIFTA) to serve the limited purpose of removing tariff and other barriers to intra-regional trade in goods only. It was a very limited integration exercise resulting in only a 10% increase in intra-regional trade.[6]

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[5] John Mordecai, *The West Indies: The Federal Negotiations* (London: George Allen and Unwin, 1968), 32-33.

[6] Owen Arthur, "The Implementation of the CARICOM Single Market and Economy and its Implications for US-CARICOM Economic Relations," *Journal of Caribbean International Relations* 1, no. 1 (2005): 5-12.

In 1973, the integration process was deepened through the Treaty of Chaguaramas which provided for a rather limited form of Common Market in the region. To the existing arrangements for the liberalization of trade in goods, a common external-tariff was added to protect regional industries. The 1973 Treaty also contained token provisions for the elimination of restrictions on the establishment of businesses, provision of services, movement of capital, and coordination of economic policies. Once again, this relatively parsimonious approach to economic integration yielded only minimal economic benefits. The impact on the volume of intra-regional trade was largely insignificant, remaining stagnant at approximately 10% of total trade. This provided virtually no incentive for the significant new investment inflows needed to facilitate industrialization and export-led growth. While intended to support regional import substitution, it did not fully address the evolving and increasingly critical issues of achieving international competitiveness and export penetration.

Throughout "the 1980s, the World Bank and the IMF encouraged developing countries to adopt liberalization measures."[7] Some of the larger Caribbean economies, in compliance with these demands, implemented programs of structural adjustment that incorporated economic, financial, and trade liberalization. The extent of such liberalization, however, far exceeded the scope of their obligations under the Treaty of Chaguaramas and thus drained economic integration efforts. Additionally, through the proliferation of new trading blocs in the mid to late 1980s, and the inexorable onset of economic globalization, economic systems worldwide were being reformed to

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[7] David E. Bloom, David Stephen and Mark Weston, "Governance Matters: The Role of Governance in Asian Economic Development," *World Economics* 5, no. 4 (October-December 2004): 63.

accommodate free market forces, facilitate the flow of capital and other factor of production, and promote export-led growth and international competitiveness.[8] As a result, the mechanisms of Caribbean economic integration put in place between 1968 and 1973 were rendered almost completely obsolete.

The rapid onset of economic globalization, and all that it implied, convinced Caribbean political leaders of the need to muster the requisite political will to expeditiously deepen and strengthen the Caribbean Community and, thereby, respond to the opportunities and challenges of the global economy, evolving at an exponential pace. Finally, at Grande Anse, Grenada, in July 1989, the Tenth Meeting of the Conference of Heads of Government of the Caribbean Community (CARICOM) decided to upgrade the rather limited Common Market of 1973, to a full-fledged Single Market and Economy in the shortest possible time.[9] Economic globalization and the economic and financial liberalization it implied have proven to be the critical, independent variables and catalysts needed to force the Caribbean closer together to ensure survival. It could also be the critical factor that determines whether or not the CSME will achieve its stated goals, given its potentially catalytic effect on the political will of Caribbean politicians to integrate.

The adoption of the Grand Anse Declaration in 1989 launched a process leading to the Caribbean's fourth attempt at integration upon the signing of the Revised Treaty of

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[8] Owen Arthur, "The Caribbean Single Market and Economy: The Way Forward" (Lecture delivered by the Prime Minister of Barbados at the Thirtieth Anniversary Distinguished Lecture Series of the Caribbean Community (CARICOM) at Frank Collymore Hall, Bridgetown, Barbados, April 23, 2004, http://www.gisbarbados.gov.bb/plugins/p2_news/printarticle.php?p2_articleid=6 (accessed August 25, 2012).

[9] Caribbean Community, Tenth Meeting of the Conference of Heads of Government of the Caribbean Community, *The Grand Anse Declaration*, July 7, 1989.

Chaguaramas in 2002. The CARICOM Single Market and Economy (CSME) thus established was essentially an integrated development strategy with three key features. Firstly, it deepened economic integration by progressing beyond a common market to a Single Market and Economy. Secondly, the CSME envisaged the widening of the current CARICOM membership, thereby expanding the economic mass of the Caribbean Community. Lastly, it envisaged the insertion of the region into the global trading system by strengthening links with non-traditional trading partners.

The most distinguishing feature of the Revised Treaty that sets it apart from prior integration arrangements is that it provides for the amalgamation of the individual economies of the Caribbean into a Single Market space through the removal of existing barriers and the opening up of the region not only to the free circulation of goods but also to that of services, capital, technology, and skilled persons.[10] The free movement of labor is, arguably, the most contentious and politically sensitive provision of the CSME. Immigration is highly visible and has an immediate impact on individual citizens who fear, among other things, competition for employment opportunities from an influx of foreign nationals. Local politicians are very sensitive to such fears among the electorate and, as a result, the retention of political power invariably takes precedence over regional integration. Dialogue and discussion between the individual governments is, therefore, critical to making progress in such politically sensitive areas.

The Caribbean's high sensitivity to the effects of external economic crises has serious implications for the economic integration process. Economic events in extra-

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[10] Twenty-Second Meeting of the Conference of Heads of Government of the Caribbean Community, *The Revised Treaty of Chaguaramas establishing the Caribbean Community including the CARICOM Single Market and Economy*, 5th July 2001, Chapter 3, Articles 30-50.

regional economies, particularly in the major world economies directly impact on Caribbean economies. Additionally, economic crises in the United Kingdom and the United States, the Caribbean's major sources of tourists, invariably reduce the number of tourist arrivals from these countries and the income earned from that sector. The 2008 world economic crisis, for example, had a devastating effect on CARICOM's fragile tourist industry as well as on commodity prices, resulting in higher levels of unemployment levels in many CARICOM Member States.[11]

The Caribbean remains as vulnerable as it was in 1968 and 1973 when CARIFTA and CARICOM were established respectively. The open dependent nature of Caribbean economies is a variable that has remained unchanged over the past 50 odd years of Caribbean integration. World-wide economic crises continue to strain the economic resources of the individual Caribbean countries and weaken their political commitment to integrate in response to domestic societal pressures arising from poor economic performance and increased unemployment.

Will the CSME agreement be effectively implemented by Caribbean political leaders and advance their long-awaited goal of sustainable economic development? Judged by the history of the past attempts at Caribbean integration, and the current record of implementation of the CSME, some skepticism is probably in order since a number of countries involved in the arrangement have not lived up to expectations in terms of implementation. While political leaders in the Caribbean have historically adopted the

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[11] Ewart Williams, "The Global Financial Crisis: Institutional Management and Regional Opportunities." (Lecture, delivered by the Governor of the Central Bank of Trinidad & Tobago at the Caribbean Law Institute Inaugural Symposium on Current Developments in Caribbean Community Law, Port-of-Spain, Trinidad, November 10, 2009).

rhetoric of unity, they have been singularly reluctant to engage fully in the fundamental, systemic changes that would ensure success for the integration movement.

Procrastination has, so far, stalled full implementation of the CSME. A 2009 CARICOM audit of the status of implementation of the CSME found many implementation deficiencies in the first phase of the CSME. Many hurdles have yet to be scaled in terms of legislative and other initiatives for the effective realization of the CSM. This research will show, however, that effective political leadership and commitment may be the decisive factor governing the status of compliance and the ultimate future of the CSME. Given the tepid response of the political leadership to the current integration process, one wonders about their political commitment to making the second phase of CSME, the "Single Economy" a reality by the latest target date of 2015.

What obviously distinguishes the CSME from the preceding integration models introduced in 1968 and 1973 is its founding treaty, the Revised Treaty of Chaguaramas. That treaty requires CARICOM Member States to make sweeping changes that will potentially create new winners and new losers and therefore have significant political implications for the individual economies. The treaties that established the Caribbean Free Trade Association (CARIFTA) and the Caribbean Community and Common Market (CARICOM) were very limited in their effect and essentially the result of numerous compromises. These compromises were deemed necessary in order to allay the concerns of political leaders of the Member States responding to the insular domestic political pressures of their electorates. The resulting agreements were, therefore, influenced more by the survival instincts of these politicians than an objective assessment of the requirements for successful economic integration leading to sustainable economic

development. Are things any different in the first decade of the twenty-first century? The answer is: not much has changed.

The Revised Treaty of Chaguaramas and the CSME it creates is, on paper, a rather ambitious endeavor, second only to the European Union. Is that ambition, however, matched by the requisite political will and commitment to carry it forward? The analysis will show that while a renewed political will might have overcome some of the stalemates in the integration arena as evidenced by agreement on the text of the Revised Treaty of Chaguaramas, that commitment still falls far short of the unified force required to create the robust and deeper form of integration needed to stay afloat in the relentless tidal flow of economic globalization. What will fundamentally distinguish the new Caribbean Single Market and Economy (CSME) and increase its sustainability is the demonstration of sustained political will to make the difficult economic and political choices required to fully implement the CSME. That will, in turn, depend on how effectively political leaders can communicate to the electorate, the purpose of the changes required by the CSME, its intended effect and impact.[12]

Much has been written on the economic integration efforts of the English-speaking Caribbean since the ill-fated attempt at a federal union in 1958. While there is a plethora of literature on the integration experience in the Caribbean, existing works tend to focus on economic, institutional and geopolitical issues, giving summary treatment to the underlying influence of domestic and intraregional politics of the integration project. Regional economic exchanges (trade and investment), transportation, economic

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[12] Owen Arthur, "The Implementation of the CARICOM Single Market and Economy and its Implications for US-CARICOM Economic Relations," *Journal of Caribbean International Relations* 1, no. 1 (2005): 5-12.

structures, political institutions, as well as geographical and demographic factors are high on the list of variables considered when analyzing regional integration. Intraregional and domestic political influences are seldom considered in the analyses of Caribbean regional integration. Caribbean analysts will, however, readily acknowledge the important influence of domestic politics but few have written about it. It is only with an understanding of how the economic processes involved in CSME and its predecessors affect groups in various Caribbean societies that it is possible to understand why interest groups desire or reject certain policies and why governments choose to adopt or avoid certain policies required for the deeper integration of Caribbean economies in the CSME. How these conflicting interests are managed, is crucial to the effective articulation of a political project of regional integration. It is the hope, therefore, that this present work will go some way in filling the gap in contemporary analysis of the politics of the current integration enterprise.

Chapter II

A Historical Perspective on Caribbean Regionalism

To fully understand where CARICOM is heading as a regional group and to gain an insight into the present day political and economic landscape, the historical development of regionalism amongst this group of small and, in some cases, disparate nation states must be fully explored. This historical overview is intended to demonstrate the significance and the influence of colonialism on the social, political and, in particular, the economic development of the English-speaking Caribbean. According to a number of Caribbean scholars, the Caribbean's history of colonialism has continued to play a significant role in more recent times in determining the success of regional integration initiatives, including the current one: the Caribbean Single Market and Economy (CSME). The strong historical economic linkages forged between the former colonies and the metropolis through plantation production is seen by some analysts as a poor foundation for national and, more important to this analysis, regional institution building.[13]

The arrival in 1492 of the Italian explorer, Christopher Columbus, marked the beginning of the Caribbean region's centuries-long exploitation by external economic interests. The region almost immediately became the battleground for various European powers fighting for supremacy and control over its natural resources.[14] The territories

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[13] Glen W Atkinson, "Economic Integration in the Caribbean Community: A Problem of Institutional Adjustment." *Journal of Economic Issues* 16, no. 2 (1982): 507-513.

[14] Franklin W. Night and Colin A. Palmer, *The Modern Caribbean* (Chapel Hill: University of North Carolina Press, 1989) 2.

subsequently acquired by each power, including Britain, became the source of agricultural products, tobacco, sugar cane, and unprocessed minerals such as gold and silver exclusively for export to Western Europe and later to North America. To establish this arrangement, the European colonizers (Britain, Spain, and France) decimated the indigenous population and reconfigured the social fabric of Caribbean society into a system to facilitate the exploitation of the natural resources of the region. The Caribbean was, thereafter, rather quickly developed as an overseas economy for the exclusive economic benefit of Western Europe.[15] Despite the passage of five centuries and changes in the political relationship between the Caribbean and Western Europe, the nature of their economic relationship has remained virtually unchanged, rendering these fragile economies extremely open, and dependent and, thus, highly vulnerable in the international capitalist system. As such, they have continued to be the source of raw materials exported to the industrialized world while importing all of their needs in manufactured goods. The result is that the region remains as heavily dependent on core countries in Western Europe and, more recently, North America as it was at the inception of colonialism in the region many centuries ago.

Geography and Demography

At the height of its existence in 1960, the West Indies Federation had a population of just over three million, with approximately 50% in Jamaica, just under 25% in Trinidad and Tobago and the remainder in Barbados, the Leeward and Windward

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[15] Night and Palmer, *Modern Caribbean*, 2.

Islands.[16] The vast majority were the decedents of slaves forcibly brought to the Caribbean from Africa through the transatlantic slave trade to work on tobacco and later the sugar plantations.[17] Other ethnic groups included Europeans, the decedents of the earlier British, Dutch, French, and Portuguese colonizers. Added to the mix were East Indian and Chinese, decedents of indentured servants who replaced African slaves when slavery was abolished in the English-speaking Caribbean in 1838. The Chinese indentured servants were recruited mainly for the sugar and cacao plantations in Trinidad and Tobago and Jamaica, while East Indians were recruited for the same purpose primarily for plantations in the former British Guiana and Trinidad and Tobago.[18] Today, they form a demographically and politically significant sector of the populations of Guyana and Trinidad and Tobago. There was also a large population of people of mixed descent, mainly Mulattos, but also Afro-Indians, Euro-Indians and mixed Chinese. Small groups of indigenous Indians (native Amerindian decedents) were scattered throughout the Caribbean region. The latter, decimated by the invading European colonizers in the fifteenth century, today, make up an almost negligible part of the Caribbean population.[19] Most of the population was Protestant with a significant number of Catholics in those territories where French and Spanish influence was high.[20] In Trinidad and Tobago and

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[16] Edmund H. Dale, "The Demographic Problem of the British West Indies," *Scottish Geographical Magazine* 79, no 1 (April 1963): 23-31.

[17] Jack Harewood, The Population of Trinidad and Tobago, CICRED Service, 1975, http://www.cicred.org/Eng/Publications/pdf/c-c50.pdf (accessed August 26, 2012).

[18] G. W. Roberts and J. Byrne, "Summary Statistics on Indenture and Associated Migration Affecting the West Indies: 1834-1918," *Population Studies* 20, no. 1 (July 1966): 125-134.

[19] Eric Williams, *History of the People of Trinidad and Tobago.* (Port of Spain: P.N.M. Publishing, 1962), 2.

[20] The Commonwealth of Dominica, St. Lucia, and Trinidad & Tobago.

the former British Guiana, there were large numbers of Hindus and Muslims, drawn almost exclusively from the East Indian population.

The territory of the West Indies Federation was highly fragmented, consisting of approximately 24 main inhabited islands and about 220 minor offshore islands, islets and cays, most of which were uninhabited. The largest of the islands in terms of its land mass and its population was Jamaica (4,244 square miles), located in the far northwest of the Federation. The second largest island by size and population, Trinidad (1,980 square miles), lay to the southeast, followed by Barbados, (166 square miles) the third largest by population size only, to the far east of the Federation.

Stretching from the Cayman Islands in the west to Barbados in the east, the Federation was some 1,310 nautical miles wide. From its northern-most point, the Turks and Caicos Islands, to Trinidad and Tobago's Icacos Point, its south western-most extremity, the Federation was 920 nautical miles in length. Most of the area within these parameters consisted mainly of open sea with other islands of the Federation forming a chain in between. Though the Federation encompassed such a vast area, most of its ten provinces were clustered closely together in the Eastern Caribbean, except for Jamaica, the Cayman Islands, and the Turks and Caicos Islands.

The majority of the islands have rugged mountainous interiors encircled by narrow coastal plains. Anguilla, Antigua, Barbuda, the Cayman Islands, and the Turks and Caicos Islands are the exception, all being fairly flat. Trinidad is mostly flat with a large mountain range to the north and a smaller centrally located mountain range. Almost all of the principal cities and towns of the Federation were conveniently located on the narrow coastal plains as, historically, this facilitated commerce. The principal towns included

Kingston, Spanish Town, Montego Bay, Mandeville (Jamaica), Port of Spain (Trinidad), Bridgetown (Barbados), Castries (St. Lucia), Roseau (Dominica), St. George's (Grenada), Kingstown (St. Vincent), St. John's (Antigua), and Basseterre (St. Kitts).

Located in the tropical zone, the islands experience hot, humid weather. The interiors of the larger islands like Jamaica and Trinidad, however, have a more temperate climate. Regions located within the rain shadows such as the southern coasts of Jamaica and Trinidad and the eastern coasts of the Lesser Antilles are comparatively drier. There are two seasons annually with the dry season spanning the first six months of the year, and the rainy season (hurricane season) following in the latter half of the year. Most of the islands lie in the path of the hurricane belt, with the exception of Trinidad and Tobago which has, on rare occasions also experienced low-latitude hurricanes. As such, these islands have frequently suffered the devastating economic and humanitarian consequences of their high risk status for wind and flood damage brought on by hurricanes.

The Early Federations of Convenience

For the purposes of this study's focus on integration, "regionalism," a precursor of integration, is defined as the conscious identification with and loyalty to a distinct region with a culturally homogeneous population. Such regionalism also involves the development of a political, economic, or social system within a distinct geographical region and the creation of institutions that expresses this particular loyalty or identity and determines collective action. This definition will guide the following historical review and subsequent chapters and will apply only to the efforts to integrate pursued amongst

the English-speaking Caribbean territories, the main focus of this study. Early initiatives by the British colonial power to group the islands together had nothing to do with regionalism but deserve mention in view of their relevance.

Efforts to form federations in the Caribbean are almost as old as the history of British colonialism in that region which dates back to 1625. To more efficiently administer its growing collection of colonies in the region, Britain introduced a number of integration schemes in an effort to address the difficulties inherent in the geography of these small and widely dispersed islands of the Caribbean. Such initiatives included a federation of the Leeward Islands.[21] In 1671, however, Barbados was administratively separated from the Leeward Islands and subsequently became the administrative centre for yet another administrative group or mini federation, the Windward Islands.[22] Throughout the 18th and 19th centuries, various combinations of island colonies were created or proposed by the Colonial Office[23] in London. These actual or proposed groupings were for the express purpose of more efficiently administering the growing number of colonial acquisitions in the Caribbean. These early federations were later to have added significance for future analysis as they could partly explain the lack of progress in twentieth century integration efforts in the Caribbean. The initial federal initiatives identified earlier, divided the British Caribbean colonies into sub regional groups and to some extent this engendered a sense of separateness and isolation that

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[21] The Leeward Islands consist of Anguilla, Antigua, British Virgin Islands, Dominica, Guadeloupe (French), St. Kitts, Montserrat, Nevis and, , US Virgin Islands. The thesis refers only to the British territories of the Leeward Islands.

[22] The Windward Islands consist of Barbados, Grenada, St. Lucia, and St. Vincent and the Grenadines, Martinique (French), and Trinidad and Tobago. The thesis refers only to the British territories of the Windward Islands.

[23] The British Government established the Colonial Office to specifically oversee its colonies.

exists even today. To the historical regional groupings already mentioned, namely, the Leeward Islands and the Windward Islands, an additional administrative group was created, comprising of Jamaica and the nearby British colonies of the Turks and Caicos Islands, and the Cayman Islands. The groupings were, severely hampered by the geographical isolation from each other and the lack of a functioning communications network.[24] Jamaica, for example, is located approximately one thousand miles from the Eastern Caribbean, a fact that partly explains the "notorious insular prejudices" that lingered in the "communal psychology" of the English-speaking Caribbean. [25] Geographic isolation would later prove to be a significant factor impeding the advance of regionalism during the subsequent experiment with federalism in the 1950s.

These early initiatives, however, differed significantly in their origins and purpose from the movement for federation of the interwar years between the First and the Second World Wars. While the earlier initiatives for federation emanated from the Colonial Office in London and the merchant and planter interests in the colonies, the impetus for the latter movement was largely an indigenous grassroots effort of radical local politicians with some encouragement from the British Government, albeit for different reasons. That effort was motivated more by a common sense of identity and purpose than by administrative expediency and economy. It is with this latter phase of interest in a federation that this chapter is most concerned.

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[24] Euclid A. Rose, *Dependency and Socialism in the Modern Caribbean: Super Power Intervention in Guyana, Jamaica and Grenada, 1970 to 1985* (Lanham: Lexington Books, 2002), 94.

[25] Gordon Lewis, *The Growth of the Modern West Indies* (London: MacGibbon & Kee, 1968), 15.

The West Indies Federation, 1958 to 1962

That later effort to form a union of British Caribbean territories had its roots in the immediate aftermath of the First World War and had as its main goal the attainment of internal self-government, an aspiration that grew exponentially, particularly in the Eastern Caribbean where pressure was mounting to change the *status quo*. Many ordinary West Indian veterans, radicalized by the experience of fighting alongside the allied forces in Europe during the First World War, demanded greater representation and broader political rights upon their return to the Caribbean. At that time, all legislatures in the British Caribbean consisted of nominated members except for those of Barbados and British Guiana. Members of these legislatures, irrespective of whether they were nominated or elected, originated exclusively from members of the ruling class, namely the merchants and plantation owners and a few professionals with no participation from the lower ranks of society due to a limited voting franchise. Aside from the question of parliamentary representation, pressure for change also grew as the Caribbean began to feel the very early effects of the inter war depression (the Great Depression). The price of sugar, the mainstay of the Caribbean colonies, fell drastically and consistently in the 1920s as world supply exceeded demand.[26] This led to widespread unemployment and internal civil disorder in many of the islands.[27]

The political agitation of the early 1920s was led by Captain Andrew Cipriani, a returning World War One veteran in Trinidad and T. A. Marryshow in Grenada whose activism was closely followed and emulated throughout the Eastern Caribbean. The two

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[26] Dennis C. Canterbury, *Neoliberal Democratization and New Authoritarianism* (London: Ashgate Publishing, 2005), 59.

[27] Lewis, *Growth of Modern West Indies,* 97.

agitated for legislative and educational reform, improved factory and trade union legislation. Most importantly, Cipriani and Marryshow strenuously advocated for the broadening of the voting franchise in their respective islands. It is Marryshow, however, who is credited with sowing the seeds of regionalism by advocating for cooperation amongst the islands to collectively achieve political reform. As such, Marryshow was widely recognized as the "Father of Federation." Largely at his instigation, there were calls for political groups in all of the islands to act together to pressure the Colonial Office into granting self-government. At the same time, it was widely felt in political circles throughout the Caribbean that self-government could only be achieved if the islands were to come together in a Federation. By the mid-1930s as the world-wide depression worsened, and the cost of administering the islands became prohibitively expensive, the British Government also renewed its interest in organizing its Caribbean colonies into a Federation. To that end it organized a series of commissions[28] to investigate a number of issues, including sugar prices, the granting of self-government, and possibility of closer cooperation amongst the islands and a possible Federation. All of these investigative commissions all recommended that the islands be organized into some form of federation.

After World War Two, the movement for self-government developed further into a quest for political independence from Britain as a single unit of British Caribbean colonies. Growing nationalism and a desire for economic integration also provided the added impetus for this new interest in a regional political union. Trade unions, political parties and the business community embraced the idea of a federation which came with a

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[28] The Sugar Commission, 1930; Closer Union Commission, 1932-1933, and the Moyne Commission, 1938.

promise of increased autonomy and political independence for the territories of the region. At the time, the region faced a number of social and political problems which the emerging political elite believed could be more effectively addressed in the context of a federation that would support a more stable and developed democratic process, support a wider scope for political action and provide increased opportunities for implementing targeted economic policies including industrialization.[29] From the economic standpoint, the Federation envisaged the expansion of regional trade and markets leading to economic growth and development in the individual territories through various forms of cooperation. As a political union, the envisaged federation would have included territories as distant from each other as Guyana and Jamaica and would attempt to consolidate national sentiments to counter any external influences or threats to the survival of the territories. Most importantly, the proposed federation would also strengthen the participating territories' collective bargaining power within the international economic and political system.[30]

The first formal initiative to integrate the English-speaking Caribbean dates back to September 1947 with the convening of the Montego Bay Conference in Jamaica. This was the first of a series of conferences sponsored by the British Government to discuss the modalities of, and later to negotiate with West Indian Governments, the terms of a federation of the British West Indian islands.[31] Significantly, the Montego Bay Conference declared that customs union and free trade to be "the first and most important

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[29] Rose, *Dependency and Socialism,* 94.

[30] Rose, *Dependency and Socialism,* 94.

[31] The Montego Bay Conference, Jamaica, 1947; The London Conference, April 1953 and The London Conference, September 1956.

step towards Federation" and marked the beginning of the long quest for Caribbean economic integration. These negotiations are critical to the analysis of the development of economic integration in the Caribbean as, for the first time; they brought the very specific political and economic interests of each of the islands to the table. The high stakes involved in these competing interests inevitably led to conflict over a number of issues which have remained unresolved even as the English-speaking Caribbean entered the twenty-first century.

As part of the preparations for Federation, the British Government established the McLagan Customs Union Commission in 1948 as agreed at the Montego Bay Conference of 1947. A resolution of that Conference declared that customs union and free trade to be "the first and most important step towards Federation." According to the McLagan Report published in 1950, a customs union would be "practicable and eminently desirable."[32] The results of this first technical review of the issue disappointed Caribbean political leaders as it pointed to potential revenue losses for many of the islands and the possibility of surrendering the power to negotiate tariffs levels to an unaccountable independent central body. John Mordecai notes that, neither the report's suggestion that high revenue earning items might not be within Federal control, nor its proposal permitting the individual units to levy equalizing taxes on inter-territory trade were enough to dissipate those fears.[33] McLagan recommended the establishment of a Customs Union Advisory Board to provide policy advice to Governments in preparation for an eventual union. Unit Governments' reaction to the report was decidedly frosty and

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[32] The McLagan Customs Union Commission Report, Colonial 268, 1950, His Majesty's Stationery Office (HMSO), quoted in Mordecai, *The West Indies*.

[33] Mordecai, *The West Indies*, 43.

the subject of customs union was avoided in all of the formal discussions on the establishment of a federation until the 1956 London Conference when it was, at last, considered.[34]

The negotiations to establish a federation between 1947 and 1956 revealed a number of national concerns among the Caribbean negotiating partners on the modalities of such issues as free trade, free movement of labor, the establishment of a customs union, and a federal tax policy. Some of these concerns dominated the negotiating strategies of the prospective federal partners and would continue to negatively influence the Caribbean integration process during the existence of the Federation.[35] On the issue of free trade, there were conflicting interests amongst the islands which had all determined that their individual industrial development was a priority. Trinidad & Tobago strongly supported trade liberalisation in response to domestic interest groups hoping to benefit from an expanded market for Trinidad's manufactured goods. Jamaica, on the other hand, was strongly opposed to free trade and adopted a staunchly protectionist stance.[36] Jamaican negotiators feared that competition from Trinidad's manufactured goods would undermine their own manufacturing industries and thus fought to retain full control over Jamaica's regime of tariffs on imports.[37] Political opponents of the government in Jamaica opposed to the idea of a federation wasted no

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[34] Mordecai, *The West Indies,* 43.

[35] Mordecai, *The West Indies,* 51-55.

[36] Mordecai, *The West Indies,* 55.

[37] Mordecai, *The West Indies*, 55.

time in exploiting the situation by warning the electorate that a Federation would lead to high unemployment and could not be good for the country.

The least developed countries of the Caribbean region (LDCs) had not yet established their own manufacturing industries and were thus concerned that internal free trade would force them to discriminate in favor of lower quality and relatively more expensive imports originating in Jamaica and Trinidad and preclude the possibility of importing from the rest of the world at competitive prices. The resulting trade diversion would, in their estimation, lead to a reduction in welfare in the least developed islands.

The issue of a common external tariff in the context of a federal customs union was yet another obstacle that the prospective members of a West Indies Federation had to address in their negotiations. The proposal to establish uniform tariffs on imports from outside of the federation caused considerable concern in all the territories. Tariff equalization would involve either the raising or lowering of tariffs in most territories.[38] Some territories would end up losing revenue if the federal common external tariff was lower than the domestic import tariff. In others, there would be increased revenue. Trinidad and Barbados with relatively low tariffs were understandably reticent on the issue of a common external tariff since they stood to gain through increased revenues from the higher tariffs. There was, however, considerable resistance from those who would lose revenue, especially among the least developed of the territories (LDCs). While this initial but wavering interest in a customs union failed to take hold given the

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[38] Mordecai, *The West Indies*, 56.

West Indies Federation's subsequent early demise,[39] there were important lessons to be learned from that experience for future policy makers promoting economic integration.

The issue of the freedom of movement of citizens within the proposed Federation was rather thoroughly and hotly debated both before the establishment of the West Indies Federation and during its existence. The issue deserves mention here as it continues today to be a politically sensitive matter for most governments in the Caribbean region. The current economic integration initiative, the CARICOM Single Market and Economy (CSME) now includes a provision to not only ensure the free movement of capital and products but also the free movement of persons. It is important to this analysis to examine how this issue was addressed when the Federation was being negotiated in the early 1950s and to make a comparative analysis of what pertains today under the CSME.

The question of the free movement of persons between the units of the Federation was discussed at the London Conference of 1953. The report of that conference indicates that there was disagreement over the decision to place the freedom of movement of persons under the exclusive legislative purview of the proposed Federation. Additionally, a decision was also taken to include in the preamble of the draft federal constitution as an objective of the Federation, the greatest possible freedom of movement of persons and goods within the Federation. The representatives of Barbados, and Trinidad launched spirited objections to these decisions and raised the issue again at a special conference in Trinidad in 1955. A compromise was reached when Trinidad agreed to immediately relax restrictions of 53 categories of working immigrants. Freedom of movement provisions were subsequently written into the Federal Constitution adopted in 1958. Always a

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[39]Axline, *Caribbean Integration*, 70.

controversial issue, it was raised again in 1960 by Trinidad which claimed that when unit immigration restrictions within the Federation would expire in 1963 as mandated, it would lead to widespread hardship in Trinidad due to the large influx of immigrants from the poorer units that would follow.[40] Barbados, the Windward and the Leeward Islands had always insisted on freedom of movement of persons, considering the facility a mandatory and essential benefit of a federation. At various times during the negotiation of the Federation, the smaller territories used this demand as a bargaining chip in negotiating with the larger islands. They would not agree to trade liberalisation without free movement of labor.

The negotiating Governments considered and debated a number of other issues critical to the establishment of the Federation at the time but less relevant to present day analysis of economic integration. While not going into any great detail, they are worthy of mention as they throw some light on how competing national interests were addressed. The first of these issues was the funding of the Federation. The West Indies Federation was meant to operate in much the same way as the government was run in the individual islands. A proposal that the individual islands would be taxed was met with great hostility as most of the governments found it politically unpalatable to require their electorates to pay federal taxes in addition to regular national income tax.[41] There were disagreements over the size of the contributions of individual islands. The larger islands of Jamaica and Trinidad and Tobago were very concerned that they would be required to cover up to

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[40] Mordecai, *The West Indies*, 291.

[41] Mordecai, *The West Indies*, 55-60.

85% of the cost of running the federal government.[42] The British Government agreed to contribute to the running costs of the Federal Government but made it clear during the negotiations that the islands would have to raise most of the required funding.[43]

The federal budget was exceedingly small and this severely constrained the federal government's ability to operate at an optimal level. It was dependent upon grants from Britain and contributions from its member states and territories. Jamaica's and Trinidad and Tobago's public sector expenditure were both larger than the budget of the West Indies Federation. Not surprisingly, this resulted in frequent requests for those states to increase their financial support of the federal government. The governments of Jamaica and Trinidad and Tobago did not welcome such requests as combined; they already provided 85 percent of the federal revenue, in roughly equal amounts.

The choice of the capital of the Federation was an issue which raised the level of conflict during the negotiations to establish a Federation. Each of the largest islands, Jamaica and Trinidad and Tobago and Barbados the most developed of the smaller insisted that the capital should be in their territories. After much debate and exhaustive studies, it was decided that the capital should be in Trinidad because it had the best infrastructure to support a federal capital. The Jamaican Government was very disappointed at the decision taken by a vote among the ten participating islands. Jamaica did not relish the idea of becoming subject to an authority based outside of its territory. The Windward and Leeward Islands were clearly not in contention but threw their support behind Trinidad and Tobago.

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[42] Mordecai, *The West Indies*, 55-60.

[43] Mordecai, *The West Indies*, 55-60.

These negotiations which began in 1947 culminated in a final agreement at the London Conference in 1956. The West Indies Federation was eventually established on 3 January 1958. The expressed intention of the members of that federation was the creation of a political unit that would later become politically independent from Britain as a single state.[44] This union collapsed on 31 May 1962 after only four years, the result of the constant internal political conflict between the member territories and between unit governments and the federal government over many of the same issues discussed in this chapter. The West Indies Federation never achieved its ultimate goal of political independence from Britain.[45]

The collapse of the West Indies Federation must be seen in the context of political developments in the two largest islands of the union, Jamaica and Trinidad. It will be recalled that during the 1950's, Britain's Caribbean colonies experienced parallel movements toward local autonomy and political independence from Britain on one hand and a wave of interest in federalism on the other.[46] By the time the Federation was finally realized, in 1958, there had been significantly more progress toward local independence in some of the larger islands like Jamaica and Trinidad and Tobago. Political independence from Britain on an individual basis was now well within reach for these islands and, tellingly, their interest in the newly established West Indies Federation waned considerably. Federation was no longer seen a necessary prerequisite for political

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[44] As had other federations of British origin, namely, the Canadian Confederation, Australian Federation, and the Central African Federation.

[45] Rose, *Dependency and Socialism,* 95.

[46] Sidney E. Chernick, *The Commonwealth Caribbean: The Integration Experience, Report of a Mission Sent to the Commonwealth Caribbean by the World Bank* (Baltimore: Johns Hopkins University Press, 1978), 5.

independence. By 1958, many of the high-profile island politicians intimately involved in the developments leading up to the Federation opted not to participate in the elections for a Federal Parliament, assigning less well-known politicians from their respective parties to run instead. Most notable was Norman Manley, Premier of Jamaica, a widely respected standard bearer for the Federation. Manley's justification for remaining in Jamaica rather than assuming a leadership position in the Federation was that he needed to stay in Jamaica to maintain public support for the Federation. It is my view, however, that Manley was unwilling to give up his privileged political position and standing in his home country to head a Federation for which no one had any enthusiasm by the time it was established. This was seen by some historians as a resounding vote of no confidence in the West Indies Federation. The prospect of Jamaica's imminent independence from Britain was more than likely a deciding factor. It is clear, therefore, that political leaders in the Caribbean involved in any integration initiative will be heavily influenced by domestic political considerations first and foremost.

Jamaica, always an ambivalent partner in the Federation, withdrew from the union following a 1961 referendum in which the electorate voted against Jamaica's continued membership. Very shortly thereafter, Jamaica attained political independence from Britain on its own terms. In addressing the consequent political crisis before the Trinidad and Tobago Legislative Assembly in 1962, then Premier, Dr. Eric Williams, famously said of the union of ten "one from ten leaves zero." Like Jamaica, Trinidad moved on to independence in 1962. This early attempt at a political union was, at the outset, doomed to failure as it was predicated solely on the attainment of self-government under a

federation.[47] At that time, Caribbean unity was not then being sought as an end in itself but as the means to an end: political independence. The demise of the West Indies Federation fifty years ago was brought about by seemingly insurmountable political differences among the ten participating territories. The historical influences just reviewed continued to have salience in the integration initiatives that were to follow the West Indies Federation.

Lessons Learned

While the West Indies Federation established in 1958, was primarily a political union of self-governing British Caribbean colonies with economic integration playing only a secondary and very minor role, many of the underlying political and economic problems that beset it, provide valuable lessons for present day analysis of current economic integration initiatives.

The support of the public is critical to any process of political and/or economic integration and its position as an important stakeholder must be clearly defined and effectively communicated. From one perspective, the Caribbean population had no stake in the Federation as conceived by the British Government. During the colonial period, the English-speaking territories had little to no incentive to communicate with each other and had no political or economic interaction. Thus when the British Government decided to create a federation among its Caribbean colonies (Bahamas, British Honduras and Guyana excluded) to avoid granting independence to a group of seemingly non-viable micro-states, West Indian population who had lived in partial isolation in their respective

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[47] Mordecai, *The West Indies*, 32-33.

territories regarded the suggestion of such a union with great suspicion. Many had either studied in the United Kingdom or had relatives who had emigrated there and thus had more in common with the London and Manchester than with each other. While the emerging political elite understood the value of a union of Caribbean States, there was a distinct lack of public awareness of the importance of a closer union among the Caribbean islands. It was, therefore, very easy for political leaders opposed to integration to manipulate the public opinion as the opposition in Jamaica at the time did so successfully, forcing the Government into a referendum which it lost.

An important lesson to be learned from the Federation experience is that integration of any kind must never be imposed from above. The West Indies Federation was established at a time when Britain's extensive involvement in the Second World War had clearly exhausted its resources and its political influence in the world increasingly weakened as the British Empire continued its inexorable decline. The British Government was, at that time, experiencing great difficulty in administering so many small territories some of which were on the verge of political independence. Organizing these Caribbean colonies into a federation was for the Britain a more efficient and logical means of managing them and ensuring that they remained within its sphere of political and economic influence. Indeed, one prominent Caribbean historian was prompted to assert that the British Government saw federation "not as a vehicle for self-government but overwhelmingly as a problem of colonial administrative convenience."[48] Opponents of the federation later argued that the union was doomed from its inception since it had been imposed from above for this very reason. Integration can only succeed when it is

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[48] Lewis, *Growth Modern West Indies,* 345.

mobilized as a grassroots effort with clear goals with which the average person can clearly identify.

It is important that the economic goals of any integration initiative are clearly defined and agreed upon well before such integration becomes operational. While significant economic issues such as trade liberalization, industrialization were debated, in the negotiations leading up to the Federation, there was never a concrete plan in place by the time it was established. Many related issues remained unresolved with too many compromises having to be made in order to establish the Federation at any cost. The end result was a very weak political union of colonies with no recognizable collective economic goals except for their competing individual provincial economic interests.

Chapter III

The Theory of Regional Economic Integration in the Caribbean Context

An effective analysis of the politics of regional integration in the Caribbean first requires an understanding of the basic economic principles of the integration process as it will facilitate the identification of the economic and, more importantly, the political stakes involved in such initiatives. The primary goal of economic integration in developing countries, particularly those in the Caribbean, is economic development. The comprehensive nature of the type of integration required to support these economic development goals has very significant political implications for developing countries since the development stakes are much higher for them than it is for the industrialized world. This chapter will, in this connection, also discuss the challenge to orthodox thinking about development economics from the Dependency School and the role of dependency in the ultimate success of economic integration in the Caribbean.

Economic Integration Theory

The theoretical framework for economic integration defined by Jacob Viner in 1950 and further refined by Hungarian economist Bela Balassa in the 1960s, developed as a branch of neoclassical welfare economics based on the principle of comparative advantage and the achievement of higher levels of welfare through the liberalization of trade. Though free trade inevitably creates winners and losers, the broad consensus among economists of all ideological persuasions is that it represents a substantial and unambiguous net gain

for society.[49] Indeed, N. Gregory Mankiw of Harvard University has said that "few propositions command as much consensus among professional economists as that open world trade increases economic growth and raises living standards."[50] Since, in practice, regional integration and free trade are confined to specific regions of the world, aggregate welfare is increased within these zones but never maximized globally. Economic integration is, therefore, the second best option where, in the absence of global integration, some integration, i.e. regional integration is the next best and most realistic option for increasing welfare, short of global integration.

At stake for each participant pursuing the regional integration option are the protective political and economic barriers that must be relinquished in order to access enhanced levels of welfare. Barriers commonly set up include tariffs, immigration restrictions, and a host of import regulations, all geared to protecting a vital national interest, be it economic, social or political. Through the progressive elimination of these political barriers to economic activity within a specific region, the theory predicts that there will be concomitant increases in the economic welfare of each of the participating states of a regional integration scheme. The benefits of economic integration through the liberalization of trade are usually classified as static and dynamic benefits.[51] Static benefits refer to the welfare gains from the marginal reallocation of consumption and

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[49] Dan Fuller and Geide-Stevenson, "Consensus among Economists: Revisited," *Journal of Economic Review* 34, no. 4 (Fall 2003): 369–387; Milton Friedman, "The Case for Free Trade," *Hoover Digest* 1997 (4).

[50] N. Gregory Mankiw, "Outsourcing Redux," <7 May 2006>http://gregmankiw.blogspot.com /2006/05/outsourcing-redux.html. Accessed 26 July 2012.

[51] Axline, *Caribbean Integration*, 3.

production patterns when trade is freed.[52] This reallocation gives rise to trade creation as participants in the integration scheme take advantage of inter-country and inter-commodity substitution of trade and the more favorable terms of trade.[53] The dynamic benefits of integration refer to the positive effects on economic growth.[54] It is, however, the former rather than the latter that has attracted the most attention since it provides the most convenient benchmark against which the benefits of economic integration are measured.[55] Trade creation[56] which represents a gain for individual members of a potential union and trade diversion,[57] representing a loss, are key determining factors taken into consideration in deciding whether or not to actually establish that union. The desirability of establishing a customs union is ultimately determined by the net amount of trade creation over trade diversion, a critical calculation for political decision makers. It will be recalled, for example, in Chapter Two that the smaller territories of the West Indies Federation had, in the mid-1950s, were greatly concerned by the potential for trade diversion and the negative effect on their welfare if they were to import more expensive and poorer quality manufactured goods from Jamaica and Trinidad within the proposed

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[52] Axline, *Caribbean Integration,* 3.

[53] Axline, *Caribbean Integration,* 3.

[54] Axline, *Caribbean Integration,* 3.

[55] Axline, *Caribbean Integration,* 10.

[56] Trade creation refers to newly created trade between the member states of a union, mainly the displacement of trade from a high-cost producer outside of the union to a lower-cost producer within the union.

[57] Trade diversion refers to the movement of trade from a low-cost producer outside of the union to a higher-cost producer within the union.

customs union. [58] It should be noted, however, that all potential welfare gains from free trade will be limited to the extent to which restrictions to the free movement of labor, capital and trade exist. Barriers to trade, even within an economic integration system, are quite often a source of conflict within a group as well as a trump card to be negotiated.

Contrary to conventional integration theory, integration policy makers in developing countries in general and in the Caribbean countries, in particular, actually expect to benefit from trade diversion away from extra regional sources to partners within their integration groups. Indeed, Andrew Axline has suggested that trade diversion is a major goal of developing country integration initiatives, referring to the phenomenon as "import substitution" on a regional scale which facilitates development by replacing extra-regional imports.[59] Sidney E. Chernick cautions, however, that developing countries should not expect substantial growth in intraregional trade resulting from trade diversion.[60] In this connection, he argues that intraregional trading partners will offer a relatively small extra margin of preference to each other as a result of the removal of intra-regional trade barriers. "Trade diversion from extra-regional to intra-regional sources will consequently be minimized." In support of that view, Chernick cites underdeveloped intra-regional transportation networks resulting in high transportation costs for intraregional imports, prompting him to comment that "there appears to be a built-in mechanism to limit the effects of trade diversion away from extra-regional

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[58] Jamaica and Trinidad and Tobago were, in the 1950s, the only two countries in the proposed customs union under the West Indies Federation that were capable of exporting manufactured goods.

[59] Axline, *Caribbean Integration*, 2-7.

[60] Chernick, *Commonwealth Caribbean*, 34.

imports."[61] Not much has changed since Chernick's observation in 1978 as intraregional transportation still remains a challenge in 2012, particularly in the financially troubled area of air transportation.[62] Trade policy makers nevertheless expect trade growth from diversion to be positive and continue to see potential for growth through trade creation.

Some integration policy makers saw advantages in the formation of economic integration schemes in the form of benefits related to self-sufficiency in relation to extra regional trading partners. Fritz Machlup, in his work, "A History of Thought of Economic Integration," refutes this, arguing that the economic advantages of a customs union lay only in the reduction of self-sufficiency in each member country of that union thus freeing resources to be utilized more efficiently elsewhere within the union.[63] He asserted that no benefits would accrue in terms of greater union self-sufficiency vis–à–vis the rest of the world.[64] Trading policies based on insularity and autarky at have clearly failed as we have seen in the case of import substitution. While the politics of regional economic blocs are influenced by calls for a greater degree of independence from the larger industrial nations, the economics of integration also dictate that there is great potential for improvement in the welfare of member states through their participation in free trade.

As noted earlier, regional integration also allows small developing countries to take advantage of economies of scale not otherwise available to them. Integration reduces the

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[61] Chernick, *Commonwealth Caribbean*, 34.

[62] Caribbean Community, *Report of an Audit of the Status of Implementation of the CSME*, October 2009.

[63] Fritz Machlup, *A History of Thought of Economic Integration* (New York: Columbia University Press, 1977), 53.

[64] Machlup, *A History of Thought,* 53.

inefficient duplication of goods and eliminates the constraints imposed by the small size and limited resources characteristic of developing countries. In this context, duplication would mean the uneconomic presence of two similar industries in two or more member states of an integration initiative when one industry would prove more efficient. High cost domestic producers can be replaced by more efficient regional producers. Fritz Machlup explains, in this connection, that reconfiguring the division of labor in the production process could result in considerably larger quantities of output in a domestic market too small to absorb that level of output. Expansion of the domestic market through integration with export markets would support the use of efficient large-scale production and permit the absorption of additional output.[65] Caribbean integration theorists, Havelock Brewster and Clive Y. Thomas go one step further, suggesting that integration also involves the division of labor and thus the diffusion of strengths and weaknesses amongst participants of the new economic system.[66] This approach implies that the potential benefits of the integrated economic system will be greater than the sum of that accruing to its constituent parts and that the integration effort would benefit not only the region as a whole but ultimately each member country of the new economic system.[67]

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[65] Machlup, *A History of Thought,* 44.

[66] Wendell A. Samuel, "Caribbean Economic Integration," *Caribbean Economic Development: The First Generation* (Kingston: Ian Randle Publishers. 1993), 160.

[67] Samuel, Caribbean Economic Integration, 161.

A further benefit of increasing the size of the domestic market through integration[68] is its positive impact on regional trade flows by encouraging trade creation and trade diversion. If countries X and Y form a union by removing tariffs on imports from each other but retain a tariff on imports from Z, it is possible that a new import from Y, no longer subject to duty, will displace in X either a home-made product of X or an import from Z. If it displaces X's domestic product, new foreign trade (though it is intraregional trade) is created. If it displaces a previous import from Z, no new trade is created, but trade is diverted.[69] Integration, therefore, increases the extent of labor division between participating states, allowing them to exploit their comparative advantages and, as a result, create trade that did not exist before. Trade diversion would occur because participants, through trade incentives, would be encouraged to purchase goods from regional suppliers, previously supplied from extra-regional sources. The extent to which such benefits can be realized will largely depend upon the existence of well developed transportation networks. Currently, however, the Caribbean does not have the necessary distribution links for these potential gains to be realized.[70]

Traditional customs union theory predicts that the terms of trade, wherein the ratio between the prices paid for imports and the prices received for regional exports, will change to the benefit of the region.[71] To the extent that the ratio of prices received for

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[68] C. Ray Miskellcy, "Grand Anse Declaration: Can the Caribbean Community Realistically Integrate Intra-regional Trade and Production within the Confines of the CARICOM Treaty by 1993?," *Georgia Journal of International and Comparative Law* 20 (1990):195.

[69] Machlup, *A History of Thought,* 87.

[70] CARICOM Audit., 2009

[71] Bela Balassa, *The Theory of Economic Integration* (Homewood, Illinois: Richard D. Irvin, 1961), 62-64.

exports increases relative to prices paid for imports, the region will experience improved welfare. These static effects of integration are, however, a short-term phenomenon. The dynamic effects of economic integration are, by contrast, felt over the long-term and reflected in economic growth i.e. the rate of growth of GNP. The dynamic effects of integration also include internal and external economies, increased local and foreign investment, increased income, and improved overall productivity through competition. While the dynamic effects of integration require a rather long gestation period before their economic benefits can be realized, they do represent rather significant gains for participating countries. Together with the static benefits, they constitute a source of common interest and motivation to engage in the requisite political cooperation that will initiate and sustain an economic integration enterprise. A theory of political integration is needed to explain how this process will take place. The theory of economic integration shares with the neo-functionalist theory of political integration the central concept of "spillover." It is argued that through that process, integration between states in one sector will very likely progress towards higher forms of integration under the influence of strong incentives to integrate in additional sectors.[72] In doing so, participants endeavor to fully capture the benefits of integration in the sector in which it started.

Axline points out that when countries in a region establish a limited form of integration in one sector to take advantage of the benefits it brings, they soon realize that they must progress to deeper forms of integration in order to derive additional benefits since these are limited to the extent of integration.[73] In the most limited form of

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[72] Axline, *Caribbean Integration*, 5.

[73] Axline, *Caribbean Integration*, 6.

integration, a free trade area, certain limited static benefits from trade creation can be achieved. However, the benefits of increased bargaining power in the negotiation of tariffs can only be realized by progressing to a higher level of integration i.e. a customs union with its common external tariff. Axline argues further that, likewise, many of the dynamic effects of integration cannot be achieved without establishing a higher level of integration i.e. a common market to facilitate the freedom of movement of the factors of production such as capital and labor. The benefits of economic policy co-ordination in fiscal, monetary and social matters are possible only through the formation of an economic union. It is, therefore, argued that once some form of integration is initially established among a group of countries, it tends to develop into higher forms of integration.[74] This is, however, subject to domestic and international political influences which may sometimes override economic considerations. "Economic integration is a highly politically charged activity" that requires governments to give up sovereignty over critical domestic matters in order to achieve higher degrees of integration.[75]

While increasing the collective welfare of the participants of the integration scheme, the integration initiative will not benefit each participant in the same manner thus giving rise to a need for a theory of political integration, as Axline suggests.[76] According to him, the neo-functionalist theory fills that need by identifying specific conditions under which "limited co-operation in non-controversial matters is likely to

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[74] Axline, *Caribbean Integration*, 5. For further discussion of the tendency to progress to higher levels of integration, see Hiroshi Kitamura, "Economic Theory and the Integration of Underdeveloped Regions" in *Latin American Economic Integration* ed. Miguel S. Wionczek (New York: Praeger, 1966), 45.

[75] Axline, *Caribbean Integration*, 5.

[76] Axline, *Caribbean Integration*, 5.

move to a higher degree of co-operation in more controversial (politicized) matters." The theory works well when applied to the economic dynamics of the European Union comprising of a number of advanced industrialized economies but does not necessarily apply to a union composed of small underdeveloped or developing countries such as obtains in the Caribbean.

In order to fully benefit from regional free trade through increased welfare, certain specific conditions must exist. As implied earlier, size matters and it is probably the single most important condition that must be met in order to achieve successful free trade. According to economic integration theory, the larger the economic area of a regional integration scheme, the greater will be the welfare benefits of economic integration as the union approaches the ultimate ideal of global free trade. In a larger economic space, one is more likely to find low-cost producers for products and thus substantially augment the potential for trade creation and lessen that for trade diversion.[77]

The other conditions relate to the volume and direction of existing trade, the degree of competitiveness and complementarity of the various economies comprising the union, and the level of tariffs prior to and after the establishment of the union.[78] With respect to the volume and direction of existing trade, welfare is more likely to be increased for a participant of a union, the higher the proportion of trade with members of the union and the lower the proportion of trade with non-union countries. Similarly, welfare is more likely to be augmented within a union, the lower the total volume of foreign trade of its

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[77] Axline, *Caribbean Integration*, 2-7.

[78] Axline, *Caribbean Integration*, 2-7.

participating states.[79] Economic integration among countries with competitive economies is more likely to result in greater welfare than among those with complementary economies. The potential for trade creation and the dynamic benefits of integration is very low in the case of the latter. Similarly, the integration of previously highly protected economies is more likely to result in increased welfare than between those with lower tariffs levels. Total welfare will be greater, the lower the level of protection of the integration scheme as a whole as reflected by the common external tariff.[80]

Most developing country integration schemes experience economic conditions which do not meet the required criteria that would ensure traditional economic integration benefits such as increases in the volume of intraregional trade. Developing country markets at the local level and, even at the regional level, are generally quite limited in scope. For the most part, as demonstrated by CARICOM statistics in Chapter IV, the ratio of foreign trade to GDP is very high and is largely defined by consumption and production patterns with industrialized countries and not with those of CARICOM partners. The economies of most developing country integration schemes are neither competitive nor complementary. In fact, they quite frequently compete for export markets in the industrialized world under conditions of income inelasticity, substantial short-term fluctuations in commodity prices and a secular deterioration of the terms of trade of primary products vis-à-vis manufactured goods. Lastly, domestic industrial output is not protected by high tariff barriers. Such tariffs are more often a significant source of revenue for developing countries rather than a trade policy tool.

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[79] R. G. Lipsey, "The Theory of Customs Union: A General Survey," *Economic Journal* 70 (September 1960): 507.

[80] Axline, *Caribbean Integration*, 6.

Axline contends that given the forgoing conditions he has cited, one might reasonably assume that unions of developing countries are unlikely to result in traditional integration benefits. In fact, most neo-classical economists concur with this view. Despite these gloomy predictions, a number of developing countries have entered into economic integration unions of varying kinds. Axline explains the attraction to integration among developing countries despite the odds, through the prism of economic development theory, arriving at a different understanding of economic integration in a non-industrialized setting. Axline concludes that critical political and economic differences between the economies of underdeveloped countries and those of the industrialized world dictate that the theory of economic integration will be different for each of these two groups. The key difference, he says, is the relative importance of economic development in the integration process of the two groups as we shall see in the following discussion.[81]

Economic Integration and Development

The industrialized societies that form the European Union have pursued economic integration and cooperation primarily to maintain European peace and security by increasing the cost of conflict for its participants. Economic integration initiatives among developing countries, like those of the English-speaking Caribbean, have been primarily driven by the need to enhance economic development, improve social and economic

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[81] Axline, *Caribbean Integration*, 7-9.

conditions and reconfigure the unequal relationships between themselves and the industrialized world.[82]

Political leaders in the Caribbean are, therefore, constantly under pressure to maintain domestic political support by demonstrating their ability to deliver positive results, that improve economic conditions, in particular, employment. This has always been the case from as far back as the West Indies Federation in the late 1950s and continues to be the case in 2012. In 1957, for example, shortly before the establishment of the West Indies Federation, The Jamaican Government decided to establish an oil refinery in Jamaica and proposed a consumption tax that would protect the refinery and effectively exclude imports of refined oil products from oil producing Trinidad and Tobago. Trinidad, the traditional supplier of oil products in the Caribbean at that time (and still is) was angered by the proposal and strongly protested Jamaica's action, arguing that the establishment of an oil refinery in Jamaica would substantially undermine Trinidad's traditional export interests and run counter to the goal of a free trade area to which all West Indian governments were committed under the Federal Constitution. Opposition politicians in Jamaica responded in equally passionate terms, asserting that thousands of jobs could be lost under a proposed customs union that would allow Trinidad to dump its exports in Jamaica.[83] Political leaders in both countries were clearly influenced by the immediate concerns and needs of their respective electorates, namely, employment. Regional integration was therefore rather low on their list of domestic political priorities.

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[82] The Revised Treaty of Chaguaramas (1973), Article 6, Objectives of the Community.

[83] Mordecai, *The West Indies*, 126.

The improvement of economic conditions, especially job creation, in the English-speaking Caribbean has been pursued through economic integration with an economic development agenda. Broadly speaking, economic development in the Caribbean context means fundamental structural change in the economy through industrialization resulting in the capability to improve overall economic and social conditions in the individual societies that comprise the Caribbean region.[84] The central political goal of developing countries engaged in regional integration schemes is development. Regional integration is, therefore, seen as one way of promoting this goal to the extent that it offers an important mechanism through which economic development can be augmented.

Economic integration and its connection to development objectives, however, have rather significant political implications, particularly for the developing countries of the Caribbean region. The theory of economic integration is based on traditional customs union theory involving increasingly higher levels of economic integration: free trade areas, customs union, common markets, and economic unions. Advancement through each successive level of integration, however, requires the progressive elimination of barriers to economic exchange and the adoption of common economic policies. Such advancement demands that the participating states to consider also the political implications of their economic decisions.

The decision to pursue of economic development through economic integration requires the consideration of a level of integration that is so comprehensive in nature that political conflict is almost unavoidable.[85] As Axline explains, the political implications of such an integration scheme relate to the requisite institutions and policies as well as to

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[84] Axline, *Caribbean Integration*, 8.

[85] Axline, *Caribbean Integration*, 8.

the negotiations underlying the adoption of these policies and institutions.[86] Integration for the purposes of development will require complex institutions and a broad range of policies to implement a more comprehensive type of integration.[87] The fact that all these policies deal with politically sensitive high-stake issues in the member states leaves little or no room for the more benign technical or non-political cooperation.[88] It will be noted in this connection that such forms of cooperation were the basis for the successful integration of the industrialized nations that now comprise the European Union today. In the context of underdevelopment, however, characterized by conditions of scarcity and nationalism, Axline posits that each participant in the integration process will adopt a rather insular approach to regional integration as clearly demonstrated in the discussion of the first integration initiative discussed in Chapter II.

In the 1950s and 1960s, British Caribbean Governments attempted to establish import substitution and export industries through foreign direct investment. Additionally, under the influence of the ECLA Doctrine promoting region-wide import substitution through economic integration, the Caribbean countries first began to consider economic integration as a means of furthering their economic development aspirations.[89] The process of economic development in the Caribbean, as in other developing countries, was closely connected to industrialization which in turn would be further advanced by economic integration. In 1965, noted Caribbean economist and proponent of

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[86] Axline, *Caribbean Integration*, 32.

[87] Axline, *Caribbean Integration,* 32.

[88] Axline, *Caribbean Integration,* 32.

[89] Axline, *Caribbean Integration*, 32.

structuralism, William Demas, redefined development from the perspective of Caribbean countries as the structural transformation of economies. This transformation, he said, would be achieved through the reallocation of labor to high productivity employment sectors, the elimination of subsistence production and the establishment of a national market for goods and services, increases in the share of manufacturing and services in the GDP, increases in the volume of inter-industry transactions with the growth in the manufacturing industry, a fall in the long run of the ratio of imports to GDP and a change in the composition of imports from consumer to intermediate and capital goods. [90] Generally, Demas called for a greater degree of flexibility and adaptability in the various economies which, he said, could be brought about by underlying political, institutional and social change.[91] This line of thinking was in step with the general consensus among developing countries that industrialization was the way forward and constituted an indispensable component of self-sustained economic growth. Continued reliance on primary production was, therefore, considered bad policy given the high level of diminishing returns from primary production as compared to that in the manufacturing sector. A move away from primary production toward manufacturing was promoted as a viable option for escaping the secular deterioration in the international terms of trade for primary products. Industrialization on the scale necessary to realize economic development goals would, however, entail the attraction of foreign investment to address the paucity of skills, technology and capital (industrialization by invitation) and require a market large enough to make that investment profitable. Despite the numerous

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[90] William G. Demas, *The Economics of Development in Small Countries with Special Reference to the Caribbean* (Montreal: McGill University Press, 1965), 19-20.

[91] Demas, *The Economics of Development,* 19-20.

investment incentives offered by governments to potential investors, such as tax holidays, duty-free importation of capital and raw materials, there was an urgent need to also offer them expanded market opportunities through the integration of individual domestic economies in the Caribbean. The pursuit of economic integration for development purposes in the context of the Caribbean's heavy reliance on external export markets and direct foreign investment raises questions relating to the salience of dependence and the policy contradictions it presents.

Dependence and Economic Integration

The pursuit of economic development goals through economic integration raises pertinent questions about the extent to which this is possible given the high level of dependency of the region on external markets for the export of their primary products and the import of manufactured goods. Orthodox approaches to development economics in the 1960s and 1970s were challenged by the "Dependency School" which focused on the dependent nature of the relationship between underdeveloped countries and the industrialized world and how that relationship fostered the state of underdevelopment, particularly in Latin America.[92] To the "Dependency School," Third World underdevelopment is an integral part of the process of developing the industrialized countries." The following discussion will show the historical development of that relationship and provide analysis of how this important variable has affected the English-speaking Caribbean and impacted upon its integration efforts and related development goals.

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[92] J. Samuel Valenzuela and Arturo Valenzuela, "Modernization and Dependence: Alternative Perspectives in the Study of Latin American Underdevelopment," *Journal of Comparative* Politics 10, no. 4 (July 1978): 535-557.

The contemporary world economic framework established during the period of colonialism persists today through international trade, aid, finance and investment polices directed by the advanced industrialized countries. Under colonialism, Third World countries were integrated into the economies of metropolitan countries as convenient locations to produce raw materials for domestic consumption or processing. These territories thus became the location for the extraction of minerals or plantation production for export on terms fixed by the metropolitan importers. This economic structure reflects the present day status of trade relations between developed and underdeveloped countries. This is not necessarily the result of free market forces but of political decisions taken by metropolitan countries several centuries ago for their own benefit. These political decisions continue to define developing country economies. Today, such economies are characterized by national income and employment based almost entirely on the primary sector with exports confined to a few products exported under highly unstable market conditions. This has worsened the terms of trade and caused wide fluctuations and shortages in foreign exchange, a critical prerequisite for development planning. Ultimately, this has widened economic and social divide in the concerned societies. Axline points out that the dependent relationship was the direct cause of dualism where a large sector of the population was entirely excluded from the economy while the other thrived in a separate economy. The division, he said, limited the potential economic size of the countries affected and the possibilities for development and growth.[93]

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[93] Axline, *Caribbean Integration*, 17

In efforts to achieve the critical objectives of development, that is, the reduction of unemployment and the establishment of a mechanism for growth, Governments have invited direct foreign investment to the Third World through a policy of "industrialization by invitation." This policy was first pursued after the end of World War Two and the subsequent expansion of the world capitalist system through globalization. Attracted by generous investment incentives, Transnational Enterprises (TNEs) provided investment capital, technology, management skills, and finance needed to further development goals. The policy of Industrialization by invitation advanced by Nobel Prize Laureate, Sir William Arthur Lewis, in the 1950s produced some favorable results, with growth in real GDP and increases in per capita national income at the aggregate level. In the Caribbean, for example, tangible results were seen, particularly in the extractive industries such as bauxite in Jamaica and Guyana and the oil industry in Trinidad and Tobago. The policy of "Industrialization by invitation" also significantly contributed to the development of the manufacturing sectors in Barbados, Jamaica and Trinidad and Tobago.[94] Today, these four CARICOM countries are among the most developed in the region with the possible exception of Guyana. These superficial successes did not, however, lead to the expected level of structural transformation that Caribbean policy makers had hoped for but to further entrenching the centuries-long reliance on the advanced industrialized world.

The overseas branches of the multinational corporations invited to invest in developing countries were invariably vertically integrated with their parent companies and had virtually no backward or forward linkages to facilitate growth in the host economies. As a result, they provided very little benefit to the host countries in terms of

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[94] Axline, *Caribbean Integration*, 17.

increased employment opportunities, technology transfer, foreign exchanges savings and earnings, and increased tax revenues. Transnational enterprises have, on the other hand, played a key role in shaping consumption patterns in host developing countries for the benefit of their parent companies in the metropolitan country.[95] Through strategically targeted marketing, they increased demand for metropolitan goods, thus facilitating further dependence on the industrialized world. The policy of "industrialization by invitation" thus created the conditions for a higher level of integration of the individual economies of the developing world into the industrialized economies than with their own regional partners.

Commonwealth Caribbean economic underdevelopment and dependency are deeply rooted in the political, economic and social history of the region. Many aspects of the challenges facing English-speaking Caribbean as they push towards deeper integration can be better understood through the lens of the regions colonial history which, to a large extent, has determined the way in which the limited resources of the region are now managed. These territories have emerged with socioeconomic and political structures that are not easily adaptable to the current needs of the various populations and are not in sync with the contemporary international economic system. The economic and social structure of the region is defined by the legacy of British mercantilist policy and the development of the sugar plantations on the basis of African slave labor. The islands and territories of the region have, as a result, remained fragmented and highly dependent despite various efforts to shake off the mantle of dependence.

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[95] Osvaldo Sunkel, and Edmundo Fuenzalida, "The Effects of Transnational Corporations on Culture," (paper presented to UNESCO Meeting of Experts), Paris, June 1-5, 1976.

Euclide Rose argues that the political legacy of British colonialism in the Caribbean embodies "the institutionalization of a rather truncated form of democratic traditions based on the "Westminster model" which has an inherent tendency to foster autocratic rule and to perpetuate colonial attitudes of subservience.[96] While, in theory, the system operates within the framework of constitutional rule and a parliamentary system of government, in practice, it lends itself to the control of vested interests, particularly those connected to foreign corporate capital,[97] further entrenching the culture of dependency in these territories. The issues of governance both at the domestic level and the regional institutional levels will, however, be further discussed in detail in Chapter VI.

The Caribbean is almost totally dependent on foreign corporate capital, aid and technology, especially from the United States. This dependence is additionally compounded by a mono-culture development established over four hundred years ago which, in effect, relegated the region to the role of producer of primary raw materials and consumer of manufactured goods from Britain and its colonies in North America. This occurred at a time when tobacco was replaced by sugar as the single most lucrative product in the Caribbean region. The consequence of such mono-crop dependence is the current failure to develop a more diversified industrial base that brings with it a high potential to positively impact economic development in the Caribbean. This externally oriented mono-crop dependence in most of the Caribbean has set the stage for the region's current disadvantaged position in the international division of labor.

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[96] Rose, *Dependency and Socialism*, 3.

[97] Rose, *Dependency and Socialism*, 3.

The centuries-long dependence in the Caribbean region on extra-regional markets for its primary products has often been linked to the economic instability in the region. Supporters of structuralism such as economist Raul Prebisch have argued that international trade provides few benefits for developing countries.[98] The Singer-Prebisch hypothesis provides an explanation. According to this theory, the world is divided into two distinct groups - the advanced industrialized core and the developing countries on the periphery. The theory then focuses on the terms of trade between the two groups i.e. the price of the exports of primary products from developing countries in relation to the price of their imports of manufactured goods from the industrialized world. The theory posits that there is a structural tendency for the terms of trade of developing countries to deteriorate in their transactions with industrial countries.[99] Put simply, over time, the price received for the primary commodities exported by developing countries will fall relative to the price paid for the manufactured goods they import. The overall effect is that developing countries, including those in the Caribbean become poorer, more vulnerable to economic crises and increasingly more dependent.

"In recent decades," the ubiquity of liberalization policy and the proliferation of "market-based systems" worldwide[100] have further increased the vulnerability and dependence of the Caribbean region. The groundswell of liberalization led by the World Trade Organization (WTO) has brought the dependency of Caribbean countries into sharp relief through its role in the loss of preferential trading arrangements these

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[98] Thomas Oatley, *International Political Economy: Interests and Institutions in the Global Economy* (New York: Pearson Longman, 2006), 120.

[99] Oatley, *International Political Economy*, 121.

[100] Bloom et al. "Governance Matters," 61.

countries once enjoyed with the countries in Europe that formerly colonized them (mainly the United Kingdom). This was largely the result of pressure on the EU from the WTO to discontinue such preferential trading preferences to former colonies. Since its establishment in 1995, the WTO has strictly enforced commonly negotiated rules to govern the conduct of international trade based on the core principles of market liberalism and non-discrimination.

The system of preferential treatment accorded to the exports of former colonies of EU Member States was considered a violation of these principles and in September 1997, following a petition from the United States, Ecuador, Guatemala, Honduras and Mexico, the WTO disputes panel called for the dismantling of the EU's banana import licensing system (2nd Quarter 1997, pages 8-9) which it ruled to be discriminatory. [101]The abolition of the licensing regime meant that United States owned banana companies in Latin America which dominated the world banana trade would gain free access to the EU market for their cheaper bananas to the economic detriment of small scale Caribbean producers. Caribbean producers had argued that duty-free entry alone without licensing systems giving priority to importers with links to the Caribbean would be insufficient to guarantee Caribbean bananas continued access to the EU market. In the Caribbean, the WTO ruling was seen as a grave threat to the economic interests of the region.[102] CARICOM has now joined the chorus of developing countries and nongovernmental

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[101] Economist Intelligence Unit, Country Report: Trinidad & Tobago, Guyana, Surinam, Netherlands Antilles, Windward & Leeward Islands, Economist Intelligence Unit, 4th Quarter 1997, 8-9.

[102] This concern was made clear to then United States Secretary of State, Madeline Albright, during her meeting with Caribbean Foreign Ministers in October 1997.

organizations that are increasingly resisting the WTO's trade liberalization efforts which, they believe, do not advance their economic interests.

In addition to the spread of trade liberalization, the effects of the global economic and financial crises of 1973, 1987 and, most recently, of 2008 on the Caribbean have demonstrated the continuing salience of economic dependency and that reliance on extra-regional market access is not the most reliable basis on which to build a development strategy. Chapters 5 and 6 will discuss, inter alia, how the issue of dependence has been addressed in the context of the policy to further deepen integration amongst the current CARICOM Member States.

The forgoing discussion of the theory of economic integration and how it operates in the context of underdevelopment in the Caribbean carries with it an implicit obligation to also address its significant political implications. At the outset, this chapter underlined the fact that free trade, whether in or out of the context of economic integration creates "winners and losers" among the participating states. While this might be the case, the general consensus is that there is an overall benefit for all through the optimal reallocation of resources. Economic integration does not, however, benefit each participant in the same manner giving rise to the potential for political conflict. Since these benefits are a source of common interest and motivation to engage in the required political cooperation, a discussion of the political process involved is required. As we have seen from Chapter II on the Caribbean's first attempt to integrate politically and economically, the participating Governments were unable to successfully navigate the numerous political pitfalls that presented themselves. Many of the problems which beset the West Indies Federation between 1958 and 1962 included insularity, nationalism, polarization and weak governance structures at the national and regional levels continue

to affect the region today and retard progress towards deeper integration. Moving beyond historical perspective and abstract economic theory to actual policy implementation in the subsequent chapters will provide a more comprehensive picture of the key variables that impact upon the prospects for success of the Caribbean Single Market and Economy (CSME).

Chapter IV

The Caribbean Economic Context: An Overview, 1965-2005

This Chapter provides an analysis of the state of the CARICOM region's economy prior to the establishment of the CSME and lays the foundation for a discussion in Chapter V of the economic integration initiatives through the Caribbean Free Trade Association in 1968 and the Caribbean Community (CARICOM) in 1973. It will also answer questions regarding the effect of these trade liberalization agreements on intraregional trade flows, a major preoccupation of the participating countries. Given the importance of the free movement of labor in the CSME, intraregional migration patterns will also be examined. Specific data on various aspects of the relationships amongst the CARICOM member states will open up a window into the current state of economic integration in the Caribbean.

The Caribbean Community (CARICOM) established in 1973 was a limited regional integration arrangement which by 2006, consisted of fifteen states in the wider Caribbean Basin. The participating member states included Antigua and Barbuda, Jamaica, The Bahamas, Montserrat, Barbados St. Kitts and Nevis, Belize, Saint Lucia, Dominica, St. Vincent and the Grenadines, Grenada, Suriname, Guyana, Trinidad and Tobago, and Haiti.

The most significant economic parameters that define the CARICOM region are its overall population, 6 million (14 million including Haiti), and the average GDP per capita, US $4,750 ($4,420 including Haiti) and the region's share of world, exports in

2002, only 0.1%.[103] What is clearly obvious is the small size of the region's market making it a rather insignificant trading partner in global terms. Trade accounts for a large proportion of economic activity in relation to GDP levels, rendering CARICOM economies very open and, consequently, very vulnerable to the effects of external economic crises.

CARICOM member states are, with the exception of Guyana and Belize, mainly small island states and are categorized by international organizations as developing countries. Traditionally, the CARICOM has further distinguished between least developed countries (LDCs) and more developed countries (MDCs) of the group for the purposes of applying certain exemptions to benefit specifically the least developed member states of CARICOM. Those designated as LDCs are as follows: Antigua and Barbuda, Belize Dominica Grenada Montserrat St. Kitts and Nevis Saint Lucia and St. Vincent and the Grenadines.[104] The MDCs comprise the following states: Barbados, Guyana, Jamaica, Surinam, and Trinidad and Tobago.[105]

Of all the member states of CARICOM, the Bahamas has the highest average per capita income with about US$ 23,175 per year (data for 2011). According to the UNDP Human Development Index (HDI), the Bahamas ranked 43 out of about 161 countries. Compared to the least developed Member States, i.e. Haiti with a per capita GDP of less than US$800 in 2011) this is indicative of substantial gaps in the average standard of living among the CARICOM member states even excluding Haiti.

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[103] World Bank (2002):346.

[104] Treaty of Chaguaramas Articles, 2 and 3; Revised Treaty of Chaguaramas, Article 3 and 4.

[105] Treaty of Chaguaramas, Articles 2 and 3; Revised Treaty of Chaguaramas, Articles 3 and 4.

Population sizes also vary widely throughout CARICOM, ranging between 50,726 in St. Kitts and Nevis to 9,801,664 (July 2012 est.) in Haiti.[106] The economies are not very diversified. Agriculture is rapidly losing it economic significance but still accounts for a high proportion of GDP in most CARICOM countries. The manufacturing industry is only a small part of industrial production and its share has been declining in most countries over the last twenty-five years. The service sector is rather well developed in most countries as the Caribbean region has long been a very desirable tourist destination and the sector is still growing in many of the islands[107] despite some setbacks in 2009 due to the global economic and financial crisis.

Trade primarily revolves around a rather narrow band exports which vary between the CARICOM member states. Overall, CARICOM economies depend rather heavily on exports of raw materials and agricultural products. These commodities groups were, until recently, often traded in protected markets so that the region has to rely, to a large extent, on preferential access to these markets. Many of these markets, however, have had to now comply with WTO regulations which increasingly put preferential access to CARICOM countries at risk.

This kind of market structure, based on exports of raw materials and agricultural products, limits the potential gains from expanded trade liberalization. In addition, the importance of raw materials in the world economy has been significantly reduced, leading to a decline in the earnings of the exporting countries. The main trading partners

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[106] The Central Intelligence Agency, *World Fact Book,* https://www.cia.gov/library/publications/the-world-factbook/geos/sc.html (accessed August 8, 2012).

[107] Deike Fuchs and Thomas Straubhaar, "Economic Integration in the Caribbean: The Development towards a Common Labor Market," *International Migration Papers* 61 (2003): 15-16.

of most of the CARICOM states are Jamaica, Trinidad and Tobago, the United States and for some states, Britain and Japan. Up to 2005, CARICOM had negative trade balances with all of its main extra-regional trading partners, except the United Kingdom. The deficits were most significant with Japan, Venezuela and the Latin American Integration Association.

Intraregional Trade Relations

The volume of both intra-regional imports and intra-regional exports expanded to economically significant levels from the inception of the first integration initiative in the region. Imports within CARICOM as a share of total imports increased from 8.8% in 1980 to 10.0% in 1996 (see appendix table 7).[108] In a 2003 study of economic integration in the Caribbean, Deike Fuchs and Thomas Straubhaar point out, however, that these imports were, distributed very unevenly across the region with the more developed CARICOM countries accounting for approximately two thirds of all intra-regional imports by CARICOM countries. The study notes that while that share dropped from 74.8% in 1980 to 69.7% in 1996, it was, nevertheless, a significant portion of total intra-regional imports (see appendix table 7). The lesser developed countries (LDCs) in the region accounted for only one third of imports from CARICOM countries. The respective share in imports for the LDCs increased from 25.2% in 1980 to 30.3% in 1996 (see appendix table 7).[109] This increase, however, was not continuous.

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[108] Fuchs and Straubhaar, "Economic Integration in the Caribbean;" See appendix table 2: Intra-Regional Imports.

[109] Deike Fuchs and Straubhaar, "Economic Integration in the Caribbean;" See appendix table 2: Intra-Regional Imports.

The share of intra-CARICOM exports as a percentage of all exports rose even more significantly from 8.7% in 1980 to 18.4% in 1996 (see appendix table 8).[110] Intra-Regional export distribution imbalances were even more pronounced than those of intra-regional imports. Over 90% of all intra-regional exports originated from countries in the MDCs (see appendix table 8). The MDC's share of intra-regional exports fell during the 1980s and began to rise again in the 1990s to the levels attained in 1980. In general, however, intraregional trade distribution remained unbalanced across the region, a fact that has and continues to concern policy makers,[111] especially those in the LDCs.

While intraregional trade increased considerably following the initial liberalization of trade amongst member states of CARICOM in 1968, intraregional trade as a percentage of overall trade remained relatively low. [112] A comparison of data from CARICOM with that of other trading blocs bears this out in no uncertain terms. For example, intra-EU exports constituted 59.5% of all EU exports in 1970 and the share rose to 62.1% in 2000 (See also appendix table 11). The level of intra-regional trade for NAFTA was 55.7% in 2000. As discussed in Chapter III, welfare is more likely to be increased for participant of a union, the higher the proportion of trade with members of that union. As the foregoing data bears out, CARICOM's scope for increasing welfare remained rather limited right up to the establishment of the CSME in 2006.

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[110] Fuchs and Straubhaar, "Economic Integration in the Caribbean;" See appendix Table 3: Intra-Regional Exports.

[111] Portia Simpson-Miller, "Address of the Prime Minister of Jamaica" (speech delivered to the opening ceremony of the Thirty-Third Meeting of the Conference of Heads of Government of the Caribbean Community, Gros Islet, St. Lucia, July 4, 2012).

[112] Fuchs and Straubhaar, "Economic Integration in the Caribbean;" See appendix Table 3: Intra-Regional Exports; See appendix, Table 6.

A significant feature of CARICOM trade prior to the CSME was the fact that the economies relied heavily on very limited number of export goods. Exports in the four most important sectors accounted for over 80 % of all exports. Trinidad and Tobago was the biggest beneficiary of intraregional trade as it was the country from which every other CARICOM country imported. For example, Belize's imports from Trinidad constituted 37.7% of all its imports from intraregional sources while in Jamaica that figure was 84.5%. Imports from Trinidad and Tobago made up a considerable share of total intra-regional imports. (See appendix tables 9 and 10).

An examination of the balances of intraregional trade of the various CARICOM countries reveals that only the balance for Trinidad and Tobago was positive, emphasizing the fact that Trinidad and Tobago was the main source of imports for the other CARICOM countries up to the establishment of the CSME in 2006 (See appendix table 10).

As far as economic policy makers at the CARICOM Secretariat and at some CARICOM capitals were concerned, there was a very clear divide between the LDCs and MDCs in terms of intraregional trade that needed to be addressed. The intra-regional trade balances for all the MDCs improved considerably between 1981 and 1996 (See appendix table 10). The LDCs, on the other hand, experienced a worsening of their balances of intra-regional trade during the same period as seen in a close examination of table 10 in the appendix. Clearly economic integration had very different results for the different groups of CARICOM member countries.[113]

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[113] Fuchs and Straubhaar, "Economic Integration in the Caribbean;" See appendix Table 3 for intra-Regional Exports; See appendix, Table 5 for trade balances.

Employment

In the lesser developed CARICOM member states (LDCs), agriculture still plays a significant role in the individual economies. Employment data published in a 2003 study of Caribbean integration by Fuchs and Straubhaar prior to the CSME shows that the agricultural sector's share of the total number of people in full-time employment as more than 60% in Haiti and approximately 20 to 25% in Belize, Dominica, Guyana, Jamaica, Saint Lucia, St. Vincent and the Grenadines. In the more developed CARICOM countries, the service sector accounted for the largest share of the total number employed with about 80% of total employment in the Bahamas.

As more detailed sector employment data was available to the Fuchs and Straubhaar study for only three countries in 2003 (Barbados, Suriname and Trinidad and Tobago), the authors extrapolated some tentative conclusions which could be applied to some of the other CARICOM countries**.** Data on employment by sector for Barbados, Suriname and Trinidad and Tobago shows that the production sector accounted for the largest share of the population in employment. This was followed by the services and the agricultural sectors. The study found that labor market shares in the services sector were very similar in all three countries, while large differences existed in agriculture and production. In Barbados, agriculture accounted for only 1.7% of total employment, while in Trinidad and Tobago it was 11.3%. The production sector was smallest in Suriname at 36.5% of employment and largest in Barbados at 48.3% according to Fuchs and Straubhaar. The services sector accounted for 15-17 % of employment in all three countries cited.

Analysis of the employment data in conjunction with the GDP of the three countries[114] indicates that productivity was lowest in Trinidad and Tobago and highest in Barbados over all three sectors. In Barbados, the 1.7% employed in agriculture produce 3.9% of GDP, compared to 11.3% who producing 1.6% of GDP in Trinidad and Tobago. The same was true for the two other sectors, although the differences were not as significant.

The size of the labor market share of the various sectors generally reflected the size of the each sectors contribution to total GDP in Barbados and Trinidad and Tobago according to the Fuchs and Straubhaar study. In Suriname, however, when the employment level increased in the agricultural sector, its contribution to GDP fell suggesting falling productivity in that sector. This was also was the case for Suriname's production sector. In that country's services sector, employment levels fell, although its share of the GDP increased. Unemployment appeared to be decreasing in agriculture, but increasing in the production sector in the two countries, for which data was available, i.e. Barbados and Trinidad and Tobago.[115]

A discussion of employment in the region brings one naturally to the question of intra-regional migration in view of its implications for the freedom of movement of labor within a common market setting. With respect to migration, the tendency is for people move from the neighbourhood and towards richer countries. Compared to the incentive of migrating to the United States in proximity to CARICOM or to other developed countries, the incentive to migrate to another CARICOM country was weak, leading to

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[114] See appendix, table 6: GDP by sectors; The World Bank, World Bank Open Data Initiative. www.worldbank.org/data/countrydata/countrydata.html#DataProfiles (accessed August 26, 2012.)

[115] Fuchs and Straubhaar, "Economic Integration in the Caribbean."

relatively low intra-regional migration flows according to analysis by Fuchs and Straubhaar. Not even large disparities in living standards between member states, they said, had resulted in significant migration within the region. [116]

As CARICOM embarks on the liberalisation of intra-regional migration in order to achieve a fully integrated labor, capital and goods market, the issue of intraregional migration and the free movement labor will become increasingly salient in the domestic politics of the CARICOM member states with important implications for the success of the CSME.

Conclusion

The standard analysis of the conflicts and poor performance of regional economic integration among developing countries such as the issue of equitable distribution of benefits, apply to the CARICOM region both prior to the CSME as we have seen in the present chapter and during the CSME as we will see in Chapter VI. As borne out by the economic indicators and intraregional trade figures cited earlier, some member countries entered the integration exercise as more developed economies and a number of others did not. As a result, the gains from economic integration were distributed unequally. The advanced economies, namely, Jamaica, Trinidad and Tobago and Barbados attracted more new industries than the less advanced regional partners resulting in a widening of the income gap between the members. The question is: can the lesser developed member countries (LDCs) catch up with their more developed integration partners? They were clearly far behind their more developed regional partners in terms of development and

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[116] Fuchs and Straubhaar, "Economic Integration in the Caribbean."

trade performance during the existence of CARIFTA and CARICOM between 1968 and 2006 and continue to face the same challenges under the CSME since 2006 as Chapter VI will demonstrate.

The example of the European periphery suggests that closing the gap with the core economies within the EU is quite possible for less developed areas within a common market supporting the free movement of labor, goods, and capital. An important factor facilitating the process of catching up for the European periphery has been a strong commitment to a market economy and to integration. The catching up process was also enhanced by the structural assistance of the EU. The overall effect of these critical elements of integration has been to induce a permanent increase in GDP growth. In CARICOM, on the other hand, member states' commitment to a market economy and to integration is still a matter of some debate despite the move to deeper economic integration. Given the forgoing analysis in this chapter, there is still uncertainty as to whether the economic conditions in the Caribbean are such that integration will be a strong enough benefit to the region. The economic conditions prior to the establishment of the CSME in 2006 suggest the likelihood of serious obstacles to the success of the CSME if the costs and benefits of integration remain unevenly distributed among the member states of CARICOM.

Chapter V

The Caribbean Free Trade Association (CARIFTA) and the Caribbean Community and Common Market (CARICOM)

The discussion of the theory of economic integration in Chapter III and how it operates in the context of underdevelopment in the Caribbean carries with it an implicit obligation to also address its significant political implications. At the outset, Chapter III underlined the fact that free trade, whether in or out of the context of economic integration creates "winners and losers" among the participating states. While this might be the case, the general consensus is that there is an overall benefit for all through the optimal reallocation of resources. Economic integration does not, however, benefit each participant in the same manner, giving rise to the potential for political conflict. Since these benefits are a source of common interest and motivation to engage in the required political cooperation, a discussion of the political process involved is required. As we have seen from Chapter II on the Caribbean's first attempt to integrate politically and economically, the participating Governments were unable to successfully navigate the numerous political pitfalls that presented themselves. Many of the problems which beset the West Indies Federation between 1958 and 1962 included insularity, nationalism, polarization and weak governance structures at the national and regional levels continue to affect the region today and retard progress towards deeper integration. Moving beyond historical perspective, abstract

economic theory and data analysis to actual policy implementation, this chapter will provide the final pieces of the puzzle for a complete understanding of the prospects for the success of the Caribbean Single Market and Economy (CSME) to be discussed in chapter six. It attempts to also identify lessons to be learned from the years between the establishment of CARIFTA in 1968 and that of the CSME in 2006.

Caribbean Free Trade Association (CARIFTA)

Following the collapse of the West Indies Federation, regional integration was resuscitated in the Caribbean in the mid-1960s on the initiative of Guyana, resulting in the establishment of the Caribbean Free Trade Association (CARIFTA). Guyana's interest in Caribbean integration was largely influenced by the racial divide of the country between East Indians and blacks, the latter being in the minority. At the time, the Peoples' National Congress (PNC) government support came primarily from the population of African descent. For the PNC administration, an integrated Caribbean offered the possibility of augmenting its domestic political support through the settlement in Guyana of immigrants from predominantly black Caribbean states.[117] The move to establish CARIFTA was the first genuine effort to integrate the English-speaking Caribbean countries and a major watershed in Caribbean regionalism.

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[117] Rose, *Dependency and Socialism*, 97.

Six years after the demise of the Federation, the Caribbean Free Trade Association (CARIFTA) was established in May of 1968. It followed the example of the European Free Trade Association's (EFTA) by immediately liberalizing trade between its members. Most notable, however, was that the new arrangement did not address extra-regional trade relations.[118] CARIFTA essentially began as a very modest free-trade agreement between the original ten members of the West Indies Federation. It was further expanded to include Belize in 1974 and the Bahamas in 1983. In contrast with the West Indies Federation, primarily a political union, CARIFTA focused on economic issues affecting its members. CARIFTA's charter was later ratified at Caribbean Heads of Government Conference of August 1967 in Guyana.

Participating Governments agreed that CARIFTA's main focus would be to promote intraregional trade through a free trade regime providing for the elimination of import duties [119] and quotas in intraregional trade;[120] and the establishment of the "administrative arrangements of the association" which included, inter alia, a regional secretariat for the efficient management of its programs.[121]

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[118] Chernick, *Commonwealth Caribbean*, 35.

[119] The Fourth Heads of Government Conference, The Agreement Establishing the Caribbean Free Trade Association (The Dickenson Bay Agreement), Georgetown, Guyana, 1968, Article 4.

[120] Fourth Heads of Government Conference, Dickenson Bay Agreement, Articles 13 and 14.

[121] Fourth Heads of Government Conference, Dickenson Bay Agreement, Article 29.

As a free trade arrangement, CARIFTA successfully liberalized 90 percent of intraregional trade thus expanding the region's markets to accommodate light manufacturing industries. Available data shows that between 1967 and 1974 CARICOM intraregional trade increased from U.S. $44 to $224 million, while the share of intra-CARIFTA exports in total regional exports rose from 6 percent to 7.2 percent over the period.[122] This represented an annual average increase of over 16 percent, compared to less than 5 percent before CARIFTA.[123] These increases, it should be noted, were measured in current prices at the time which reflected a higher rate of inflation, especially the effect of the unprecedented increase in oil prices in 1973 during the Oil Crisis. During this period, the regional trade was dominated by the four larger countries, with 34 percent of manufactured goods from Trinidad and Tobago, 49 percent from Jamaica, 40 percent from Barbados, and 66 percent from Guyana were exported to other CARIFTA countries.[124] Combined, these countries were responsible for 96 percent of CARIFTA's exports and 90 percent of its imports in 1974.[125]

Despite such impressive results, flaws within CARIFTA's trade regime emerged as early as 1971, particularly in the manufacturing sector. The use of local materials in the production of manufactured goods among its members was relatively small and, as a result, yielded very little benefit to the exporting

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[122] Rose, *Dependency and Socialism*, 98.

[123] Economic Commission for Latin America, "The Impact of the Caribbean Free Trade Association (CARIFTA)," *Economic Bulletin for Latin America* 18 (1973) 144.

[124] Economic Commission for Latin America, Impact of CARIFTA, 144.

[125] Chernick, *Commonwealth Caribbean*, 30.

countries. This was partly due to the fact that the CARIFTA Agreement incorporated a mechanism known as the Basic Materials List. This mechanism conferred local origin status on a number of products which, even though not produced in the region were deemed to be of regional origin for the purpose of the "value-added criterion" whereby 50 percent of a product's value had to be created in the region in order for it to qualify for treatment as a local product**.**[126] These materials were needed essentially to sustain the light manufacturing industries that had been established through earlier industrial development campaigns.[127] This deficiency in the region's trading arrangement was inherited by CARIFTA's successor, CARICOM, but eventually terminated in 1981. William Demas and other architects of CARITA later conceded that a substantial volume of intra-Caribbean trade from a strictly economic stand point may not have been all that beneficial to the exporting member countries.[128]

Some of the weaknesses of CARIFTA derived from the fact that it was neither a full-fledged customs union nor a common market; it was simply a free trade agreement. It did not require its participating countries to have harmonized external trade arrangements and did not promote a common market for the other factors of production, such as labor and capital. Essentially, CARIFTA was a modest effort at regional cooperation in the sense that it achieved a minimum

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[126] Fourth Heads of Government Conference, Dickenson Bay Agreement, Schedule 11 (Appendix of the Treaty); Clive Y. Thomas, *The Poor and the Powerless: Economic Policy and Change in the Caribbean,* 312-15.

[127] Rose, *Dependency and Socialism*, 99.

[128] William G. Demas*, The Caribbean Community and the Caribbean Development Bank* (Port of Spain, Trinidad, December 2, 1975), 5.

level of economic integration.[129] Its efforts were almost exclusively focused on simply eliminating intraregional trade barriers. It did not address the imbalance in the distribution of the benefits of cooperation between the region's four more developed countries (Barbados, Guyana, Jamaica, and Trinidad and Tobago; i.e., the MDCs and the less developed islands. For example, the Caribbean Development Bank, created in 1970 to support the Association's activities and to make available investment capital on favorable terms to assist the smaller islands whose narrow resource base excluded them from sources of investment finance beyond the region, was not an integral part of the CARIFTA framework.[130] This particular shortcoming was reflected in the share of the region's trade generated by Barbados, Guyana, Jamaica, and Trinidad and Tobago which increased from 60 percent in 1967 to 69 percent in 1971. During this same period, trade among the smaller islands declined from 1.9 percent to 1.4 percent of the total trade activity within CARIFTA.[131]

To conclude, CARIFTA was clearly not a sufficiently aggressive strategy for regional economic integration. Its failure to address the need to establish a common external tariff to protect the region's trade, to integrate its members, and to renegotiate their economic relations with the advanced industrialized world indicated that the architects of the Association were not particularly concerned

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[129] Rose, *Dependency and Socialism*, 99.

[130] Clive Y. Thomas, *The Poor and the Powerless: Economic Policy and Change in the Caribbean*, London: Latin America Bureau, (1988) 307-310.

[131] Economic Commission for Latin America, The Caribbean Integration Programme, 1968-1972, Port-of-Spain, Trinidad, 1973, 19.

about developing or enhancing the region's bargaining power vis-à-vis the developed world.[132] Additionally, its inability to reallocate human and natural resources to certain areas in the Caribbean and thus overcome deficiencies stunted the potential for more robust economic growth. The Association's failed efforts to integrate regional production ruled out collective self-reliance as a strategy for development and undermined efforts to accelerate economic growth and development. This first attempt at economic integration also failed to address the region's high level of dependency on foreign products and capital. CARIFTA constituted "a minimal form of regional integration, without major compensatory and corrective mechanisms" to effectively address the unequal distribution of benefits and attendant political polarization over the distribution of the gains from economic integration and the deployment of dependency reduction measures.[133]

CARIFTA's disappointing track record combined with a growing consensus among the majority of Governments in the English-speaking Caribbean in support of a common external tariff and a free zone area, fuelled debate on the necessity of deepening the economic integration process and putting in place measures to reduce dependency.[134] This proved to be a catalyst for renewed efforts at collaboration that ultimately led to CARICOM.

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[132] Rose, *Dependency and Socialism*, 100.

[133] Axline, *Caribbean Integration*, 89.

[134] Rose, *Dependency and Socialism*, 100.

Caribbean Community and Common Market (CARICOM)

During the early 1970s, a number of factors converged to produce a considerably more ambitious approach to Caribbean regional integration. Initially, the impulse was to replace CARIFTA's modest free trade arrangement with a more comprehensive one eventually leading to the establishment of a common market with a system of uniform external tariffs and measures to facilitate the distribution of benefits to the less developed countries of the region (LDCs). It will be noted, in this connection that although CARIFTA had had a positive impact on some of the economies of the region, the less developed countries quickly felt disenfranchised under CARIFTA. Lacking an industrial base, they argued that the benefits of the Association were disproportionately accruing to the more developed countries in the Association. This dissatisfaction proved to be a vital adjunct to the new push for a stronger union.

Apart from the dissatisfaction with CARIFTA, Caribbean leaders were also concerned about the effects of post colonial dependency on the regional economy.[135] This dependency was brought into sharp relief by the United Kingdom's application for membership of the then European Economic Community (EEC), now the EU. Caribbean countries faced the prospect of losing or having to renegotiate their preferential export markets. It was, therefore, important that they present a united front as they negotiated their relationship with the EEC alongside the African and Pacific states (ACP).[136] The need for Caribbean unity and political cohesion for

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[135] Rose, *Dependency and Socialism*, 101.

[136] Axline, *Caribbean Integration*, 128.

achieving that purpose was a key incentive to cooperate in the negotiations to establish CARICOM. Such an entity could, inter alia, also act as an agent of collective bargaining with countries outside of the region.

In October 1972, the Seventh Heads of Government Conference decided to convert CARIFTA into a Common Market and establish the Caribbean Community and Common Market.[137] This new entity was eventually created under the Treaty of Chaguaramas and entered into force on August 1, 1973.[138] Twelve Member States and territories eventually joined the new arrangement. The British Virgin Islands and the Turks and Caicos became Associated Members of CARICOM in July 1991, followed by Anguilla in July 1999.[139] The Cayman Islands joined the regional grouping as the fourth Associate Member of the regional grouping in May 2002, and Bermuda, joined as the fifth Associate Member on 2 July 2003. Suriname, the first non-English speaking member joined CARICOM on July 4, 1995. Haiti secured provisional membership on 4 July 1998 and on 03 July 2002 was the second non-English-speaking Caribbean State to become a full Member of CARICOM.

The Treaty of Chaguaramas of 1973 did not significantly change the existing institutional arrangements to meet the more complex requirements of the new CARICOM. The Treaty, for example, did not provide for a specific entity to

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[137] Caribbean Community, *A Brief History of the Caribbean Community (CARICOM),* http://www.caricom.org/jsp/community/caricom_history.jsp?menu=community&prnf=1 (accessed August 9, 2012).

[138] Caribbean Community, *Brief History of the Caribbean.*

[139] Caribbean Community, *Brief History of the Caribbean.*

regulate the newly created common market and, as a result, some of the institutional weaknesses that hampered integration efforts in the past continued. CARICOM was governed by a hierarchical series of ministerial organs and institutions. The supreme organ of the Community was the Heads of Government Conference and final authority of the Community. The Common Market Council was the next highest organ of the Community and had primary responsibility for economic integration. The administrative functions of the Community were performed by the Caribbean Community Secretariat, presided over by a Secretary-General appointed by the CARICOM Heads of Governments Conference.

The principal economic objective of CARICOM was to expand the regional market in order to encourage the growth of industries and related investment.[140] CARICOM governments felt that such industrialization, through a policy of import substitution, would only succeed if the size of the individual markets were increased by combining them into one large regional market.

Additionally, as reflected in the text of the Treaty of Chaguaramas, CARICOM Governments attempted to achieve balanced regional economic development by seeking to strengthen the "economic and trade relations amongst its Member States" through "coordination and regulation."[141] These treaty provisions were intended to foster accelerated, harmonized and balanced

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[140] Caribbean Community, *A Brief History of the Caribbean.*

[141] The Treaty Establishing the Caribbean Community (The Treaty of Chaguaramas (1973), Chapter 1, Article 4. http://www.caricom.org/jsp/community/original_treaty-text.pdf (accessed August 8, 2012).

development as well as "the sustained expansion" and "integration of economic activities." These benefits, the Treaty of Chaguaramas goes on to stipulate, would be shared equitably, "taking into account the need to provide special opportunities for the Less Developed Countries.[142] As Atkinson observes, CARICOM Member States hoped that these measures would increase their economic independence as a group and permit them to engage other countries to greater advantage through a renewed empowerment under this treaty.[143] In order to realize these objectives and further strengthen economic integration, the Member States agreed to the establishment of a common external tariff, a harmonized system of fiscal incentives for industry, double taxation and tax-sparing agreements, and to the formation of a Caribbean Investment Corporation (CIC). The latter was designed to channel equity funds to the less developed member countries."[144]

The 1973 Treaty, however, fell short of the measures needed to make a clear economic impact. It contained only token provisions relating to the removal of restrictions on the establishment of businesses enterprises, the provision of services, capital transfers, and the coordination of economic policies. This relatively limited approach to economic integration was a reflection of the deeply flawed political support for economic integration. It yielded only minimal economic benefits, prompting former Prime Minister of Barbados, Owen Arthur

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[142] The Treaty Establishing the Caribbean Community. 1973, Chapter 1, Article 4 (a) (ii).

[143] Atkinson, "Economic Integration in the Caribbean Community," 511.

[144] Kempe R. Hope, "A Macro-Economic Overview of the Trade Impact of CARICOM: A Study of Selected Caribbean Countries," *Economia Internazionale* 32 no. 4 (1979): 437.

assert that "it made hardly a difference to the volume of intra-regional trade, which continued to hover at around 10% of total trade."[145] The annual reports of the CARICOM Secretary-General between 1988 and 1994 reported little progress on the expansion of intraregional trade. Only two of the more developed countries in the Community listed other CARICOM members as major export destinations. [146] The overall results of the first decades of CARICOM were less than impressive. [147] This was clearly not the level of stimulus needed to attract significant new investments that policy makers had envisaged when establishing CARICOM. While intended to support regional import substitution, it did not fully address the critical issues of achieving global competitiveness and export penetration.

The development policies pursued by individual states throughout the existence of CARICOM and CARIFTA did nothing to accelerate growth or economic development. In fact, they were somewhat counterproductive. Firstly, these policy measures were too heavily reliant on tariff and non-tariff barriers that provided high levels of protection from external competition to domestic and fledgling industries. As separate economic units; the individual Caribbean economies had, over many decades, put in place a formidable battery of protective barriers to the unimpeded circulation of goods, services, skills and capital among

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[145] Arthur, "Implementation of the CARICOM Single Market and Economy," 5-12.

[146] Robert J. Samuelson**,** *The Economist Book of Vital World Statistics* (London: Economist Books, 1990), 161.

[147] Trevor M. A. Farrell, "The Caribbean State and its Role in Economic Management," in *Caribbean Economic Development: The First Generation*, edited by Stanley Lalta and Marie Freckleton, 200-214 (Kingston, Jamaica: Ian Randle Publishers, 1993), 202.

their respective economies. Not surprisingly, much of the economic potential of these economies has, as a result, been stifled by these arrangements. Indeed, some commentators have said that foreign enterprises have been traditionally afforded a far more accommodating and potentially profitable environment in which to do business than the average Caribbean enterprise.[148] The insidious impact of these systemic features significantly challenged the development efforts of Caribbean economies throughout the duration of CARIFTA and CARICOM between 1968 and 2005. The proliferation of such barriers to trade across the region significantly reduced potential opportunities for developing industries and expanding markets. Political leaders in the individual participating states were to a large extent reluctant to remove these protective barriers for fear of the domestic political backlash that would follow if local industries were to collapse under the weight of competition from more efficiently produced imports. Most importantly for the political survival of Governments, current employment levels needed to be maintained and opportunities expanded at all costs.

The CARICOM region's reliance on preferential non-reciprocal duty-free access to the markets of their principal trading partners is also relevant. While trade agreements such as the Caribbean Basin Initiative (CBI), Caribbean-Canada Trade Agreement (CARIBCAN) and LOME,[149] provided some stability and guaranteed markets for traditional industries in manufacturing and agriculture, they locked the region's economies into resource use patterns that precluded easy

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[148] Arthur, "Implementation of the CARICOM Single Market and Economy," 5-12.

[149] Arthur, "Implementation of the CARICOM Single Market and Economy," 5-12.

resource redeployment in response to rapidly changing cost and demand conditions. Systemic dependence on these two instruments of economic development thus drastically reduced the potential for economic development and growth and their effects continue into the twenty-first century.

In common with its predecessor, CARIFTA, CARICOM caused a considerable degree of disenchantment, with some observers going as far as to say that it was a failure. In this connection, critics cited the lack of political will for genuine integration, weak arrangements under CARICOM which lacked efficacy and the initiative's narrow geographical coverage. While there were several areas of performance that could have been strengthened, CARICOM was not a total failure, if it seen as more than just a trading bloc. When CARICOM's trade generation results are seen alongside its non-economic achievements, in other areas of the common market, as well as from Functional Cooperation (including common services) and the coordination of foreign policies, especially external economic policies, it is clearly not a total failure as great progress was made in those areas. CARICOM poor record of intraregional trade, especially in the first two decades of its existence has been attributed to international economic crises over which it had no control. These crises included, for example, the Oil Crisis of 1973 and the Asian Financial Crisis (Black Monday) of 1987.

Analysis of the performance of CARICOM after 7 years of existence in 1981 in its three areas of activity indicated that although modest gains were recorded, in many aspects of functional cooperation and, to a lesser extent, intraregional trade, insufficient progress was made in the areas of production

integration and the coordination of foreign policies. A 1981 study commissioned by the CARICOM Council of Ministers found that the delays encountered in implementing programs and projects for coordinated production integration were the single most critical factor contributing to disappointment with CARICOM and its poor public image at the time.[150]

[150] Caribbean Community*, The Caribbean Community in the 1980s, Report by a Group of Caribbean Experts Appointed by the Caribbean Council of Ministers, (Georgetown, Guyana:* Caribbean Community Secretariat), 1981.

Chapter VI

The Caribbean Single Market and Economy (CSME)

This final chapter brings together the various elements of the Caribbean integration experience into one coherent interpretive picture. The intention here is to specifically examine and discuss the new Caribbean Single Market and Economy (CSME) against the backdrop of past experience spanning some 65 years and to begin to address the questions this study has set itself to answer. These questions relate to what variable(s) differentiate this new integration initiative from past attempts, whether there is a fundamental distinction in the CSME that increases its sustainability and what differentiates and at the same time is expected to sustain the CSME. These questions lead one to the fundamental question as to whether this new integration enterprise represents the rebirth of Caribbean regionalism or just another attempt to resuscitate an inherently flawed development strategy. The conflicting economic aspirations and domestic societal pressures in each territory that dominated the West Indies Federation and the political advances towards self-government in individual islands immediately prior to its establishment in 1958 set the tone for its eventual demise in 1962. The Caribbean Free Trade Association (CARIFTA) formed in 1968 witnessed political polarization between the LDCs and the MDCs over the distribution of the gains from economic integration. The Caribbean Common Market (CARICOM) that followed in 1973, like its predecessor, CARIFTA, failed to generate

significant intraregional trade or to effectively stimulate economic development. Given that many of these challenges which hindered progress in the past continue to impact on the Caribbean integration process in the twenty-first century, the obvious question now is whether the CSME will make a difference.

As we saw in Chapter V, the momentum for deeper integration in the Caribbean has, to a significant extent, been influenced by external stimuli; the establishment of the CSME in 2006 was no exception. The growing number of regional trade arrangements (RTAs) established around the world in recent years provided much of the incentive and thus the impetus to progress to a deeper form of integration in the Caribbean region. This surge of global interest in regional trading blocs has taken on an almost frenzied pace in recent years as Central and Eastern European states, for example, strive to meet the economic and social benchmarks required to join the close-knit family of nations comprising the European Union (EU). Numerous other trading blocs have been established in Africa, Asia and elsewhere. Fritz Machlup suggests that these trading blocs are essentially a compromise that reconciles the diametrically opposed goals of trade liberalization and protectionism.[151] This may be just the compromise the Caribbean region needs to address increasing regulatory pressure from the WTO to liberalize trade and at the same time offer a measure of protection to regional industries.

The Caribbean Single Market and Economy (CSME) established on 1 January 2006 represents the CARICOM region's latest and most comprehensive effort to deepen economic integration. The establishment of such an advanced

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[151] Machlup, *A History of Thought,* 102.

integration scheme has had significant political implications for the region which relate to requisite institutions and policies as well as to the negotiations underlying the adoption of these policies and institutions. As discussed earlier in Chapter III, integration initiatives amongst developing countries are primarily for the purposes of development.[152] According to Axline writing almost thirty years ago, such integration requires "a system of complex institutions" and appropriate policy measures to achieve economic development via integration. Axline's observation remains as valid today as it did in 1973. The Revised Treaty of Chaguaramas establishing the CSME provides for the advanced framework envisioned by Axline for the creation of institutions and the formulation of policies to promote the region's economic development goals. Essentially, the Revised Treaty addresses the need for a more cohesive regional response to the growing global competition and intense international regulatory pressures that threaten economic development in the Caribbean. The enhanced mechanisms put in place to strengthen the original CARICOM treaty and how they have been implemented are the subject of the following discussion.

Establishment and Implementation of the CSME

In 1989, when the CARICOM Heads of Government decided to upgrade the Common Market to a single market and economy where factors of production could circulate freely as a basis for internationally competitive production of goods and the provision of services, they also agreed that the CARICOM Treaty

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[152] Axline, *Caribbean Integration*, 8.

would have to be revised in order for required the transformation to take place. Following the adoption of the report of the West Indian Commission in 1992,[153] an Inter-governmental Task Force was established, to revise the 1973 CARICOM Treaty. Between 1993 and 2000, the Inter-Governmental Task Force (IGTF), composed of representatives of all Member States, created a new version of the CARICOM Treaty, formally named, The Revised Treaty of Chaguaramas Establishing the Caribbean Community, including the CARICOM Single Market and Economy.[154] Provisions were made through additional Protocols for the inclusion of new arrangements covering*, inter alia,* e-commerce, government procurement, free-zone goods, free circulation of goods, and the rights contingent upon the free movement of persons.[155]

The CSME, finally established in 2006, now provides for a single economic space where business and labor can freely operate in order to stimulate greater productivity and efficiency, higher levels of domestic and foreign investment boost employment levels[156] and create conditions for "the sustained growth of intra-Community and international trade."[157] The Single Market component consists of a regime of measures that liberalizes the movement of goods, services,

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[153] The West Indian Commission was established by CARICOM in 1989 to formulate a regional strategy for responding to the new global political order following the collapse of the Soviet Union and to the spread of economic globalization. . The Commission's work led to the establishment of the CSME.

[154] CARICOM, www.caricom.org (accessed August 26, 2012).

[155] CARICOM, www.caricom.org (accessed August 26, 2012).

[156] The Revised Treaty, Article 6 (b).

[157] The Revised Treaty, Article 78, paragraph 1.

capital, business enterprise and skilled labour within a customs union.[158] Since 2007, the goal of a Single Market has been largely accomplished.

The Single Economy component envisages the reconfiguration of separate domestic economies into a Single Economy. This objective is to be accomplished through the harmonization, coordination and convergence of regional macro-economic policies,[159] the "enhanced coordination of foreign and (foreign) economic policies,"[160] the harmonized and coordinated development of the productive economic sectors and small and micro-enterprises,[161] and collaboration on the management of monetary and exchange rate process. The new treaty also allows for collaboration on "the development of capital markets, standards setting and enforcement, the enforcement of a community-wide competition policy and consumer protection measures" as well as for requisite institutional support.[162]

A defining feature of the "Revised Treaty" is that it explicitly permits "special and differential treatment (S&D)" to its lesser developed State Parties (LDCs), especially the Member States of the Organization of Eastern Caribbean

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[158] The Revised Treaty, Articles 39, 40, 41, 42, 43, 44, 45, 46 and 78.

[159] The Revised Treaty, Article 70.

[160] The Revised Treaty, Article 6 (h).

[161] The Revised Treaty, Article 53.

[162] Owen Arthur, "The Caribbean Single Market and Economy: The Way Forward" (distinguished lecture delivered by the Prime Minister of Barbados on the 30th anniversary of the Caribbean Community, Frank Collymore Hall, Bridgetown, Barbados, April 23, 2004). http://www.gisbarbados.gov.bb/ plugins/p2_news/printarticle.php?p2_articleid=6 (accessed July 9, 2012); The Revised Treaty, Articles 14, 21, 23, 24, 25.

States (OECS).[163] This provision addresses the objective of providing equitable access to economic development, a very contentious issue in earlier phases of economic integration. The Revised Treaty also defines the mechanisms by which participating countries, regions or sectors that experience developmental disadvantages as a direct consequence of regional integration can have their concerns addressed appropriately**.** A center-piece of the mechanisms put in place was the Caribbean Development Fund (CDF).

The CDF was established in August 2009 pursuant to Article 158 of the Revised Treaty of Chaguaramas "for the purpose of providing financial or technical assistance to disadvantaged countries, regions and sectors."[164] It is the key element of the regime to address the disparities among the Member States of CARICOM which may result from the operation of the CSME. The Agreement Relating to the Operations of the Fund, signed in July 2008, was the result of many years of negotiations between CARICOM Member States on the principles, size and structure of a regional development fund.

To facilitate consumer and investor confidence in the application of the measures relating to the CSME, the treaty now includes new measures covering dispute mediation and resolution. The Caribbean Court of Justice, vested with the mandatory and exclusive jurisdiction to adjudicate in disputes over the

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[163] Caribbean Community, Twenty-Second Meeting of the Conference of Heads of Government of the Caribbean Community, *The Revised Treaty of Chaguaramas establishing the Caribbean Community including the CARICOM Single Market and Economy*, July 5, 2001, Chapter 7, Article 158.

[164] CARICOM Heads of Government, *The Revised Treaty,* Article 158.

interpretation and application of the Treaty establishing the CSME is a centerpiece of the new dispute resolution mechanism.[165]

Despite some movement, mostly on the Single Market, overall implementation of the CSME continues to lag behind commitments undertaken. For example, a CARICOM implementation audit commissioned in 2009 reported that the Single Market-legislative compliance record was poor in relation to putting in place the vital components required for inter-governmental agreements on the free movement of skilled nationals, the free movement of capital, goods and services; establishment of businesses, and the free movement of capital.[166] CARICOM Member States still experience significant administrative and political hurdles with regard to the free movement of labor, arguably the most contentious and politically sensitive provision of the CSME. A suggested central certification authority in the CARICOM Secretariat to facilitate the free movement of labor has not yet materialized. The Revised Treaty's protocol on contingent rights of persons invoking the right to freedom of movement agreed to in 2006, is not yet in place and, as a result, the immigration difficulties faced by spouses and children of workers travelling within the region have not been fully addressed according to a 2008 ILO report.[167] Negotiations on a draft protocol have continued for almost six years with some governments citing capacity and

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[165] CARICOM Heads of Government, *The Revised Treaty,* Articles 187-224.

[166] CARICOM Audit, 2009.

[167] International Labour Organization, Globalization, Regional Integration and the Economic Partnership Agreement: The Social and Labour Dimensions, Report International Labour Organization (ILO) – Caribbean Congress of Labour (CCL), Round Table for Caribbean Workers' Organizations, Bridgetown, Barbados, 23-25 June 2008.

resource constraints as impediments to the provision of social services to CARICOM nationals who exercise their freedom to move within the region and establish themselves in other CARICOM countries.

CARICOM is, however, struggling to implement the new treaty, in particular, the Single Economy component. The slow implementation of the provisions of the Revised to Treaty to facilitate the free movement of skilled labor is hardly surprising. The free movement of workers between the member states of CARICOM has always been a thorny issue for Caribbean politicians since the West Indies Federation more than fifty years ago. In October 2009, at the Open Forum of the Convocation on the CARICOM Single Market and Economy (CSME) held in Barbados, the freedom of movement of labor provision of the CSME was very vigorously debated.[168] The provision invoked numerous objections and a series of recommendations from stakeholders in the labor and business sectors aimed at stalling the process. These recommendations ranged from the establishment of a labor market information system and a social welfare stabilization program to the full investigation of lifestyle and demographic changes entailed by the free movement of Caribbean Citizens.[169] These recommendations clearly reflected domestic concerns in individual CARICOM Member States fearing an influx of immigrants from poorer States.

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[168] Caribbean Community, *Free Movement, Hot Topic at Convocation*, CARICOM Press Release 391/2009, October 12, 2009, http://www.caricom.org/jsp/pressreleases/pres391_09.jsp?null&prnf=1

[169] Caribbean Community, *Free Movement*.

Implementation deficits such as those just outlined have been a recurring problem throughout the history of Caribbean integration. From as far back as 1992, the report of the West Indian Commission identified the region's crippling implementation deficit as a serious hurdle in the quest for deeper integration and made specific recommendation to address the problem. The recommendations were meant to also draw attention to this perennial problem which characterized Caribbean regional integration then. The Commission's recommendations, however, still resonate twenty years later in 2012. The West Indian Commission recommended the establishment of a CARICOM Commission, that is "a central authority, freed of national, domestic responsibilities and allegiances, and appropriately empowered to implement CARICOM's decisions."[170] This apparently bold proposal was, however, watered down by the West Indian Commission's expressed caveat that the recommendation would not "over-ride national action."[171] The recommendation was clearly not intended to change the *status quo*. This very early capitulation to concerns that the CARICOM Commission would encroach on the national sovereignty has repeated itself many times in the years that followed. Given this history, it comes as no surprise that nineteen years after the original recommendation and five years into the CSME, a CARICOM Commission has yet to be established and the record of implementation continues to be lackluster.

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[170] Caribbean Community*, Report of the West Indian Commission*, 1992.

[171] Caribbean Community, *Report of the West Indian Commission,* 1992.

Breaking the long-standing cycle of paralysis in treaty implementation which predates the Revised Treaty is critical to the success of the CSME. If implementation continues to fall short of the commitments undertaken by Caribbean Governments under the Revised Treaty, the credibility of the current regional integration process will be further undermined, giving critics at the domestic societal level the political leverage they seek to advance their rather narrow insular political agendas. Professor Norman Girvan of the University of the West Indies argues that reform of CARICOM's system of governance that addresses the implementation deficit is critical to the realisation of the goals identified in the Revised Treaty establishing the CSME.[172] The implementation audit report released in 2009 has partly attributed sluggish compliance performance to institutional capacity deficits. While this may be the case, one thing that is abundantly clear is the deficit in governance, the subject of the following section.

Community Governance

To fully assess what variables, if any, differentiate the CSME from the integration initiatives it succeeded, it is necessary to also examine the all-important question of governance of the Caribbean Community. The question of governance at the regional institutional level has become increasingly salient in the discussion of integration due to its impact on regional decision making,

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[172] Girvan, *Towards a Single Development Vision, 17.*

regulation, enforcement and, most importantly treaty and policy implementation. Governance at the domestic level is also relevant in this discussion as regional governance can potentially be impacted by national governance in the participating states of an integration scheme. Before launching into a discussion of the role of governance in the integration of the Caribbean, however, it is helpful to first briefly define what is meant by governance and identify the factors that have contributed to its growing importance in recent times. Governance operates at several levels, global, regional, national and local and there are many interactions between each level. It encompasses the economic and the political, the private (i.e. corporate governance) and the public. In this study, the focus is on regional governance and its interaction with the national level and, in particular, its impact on economic integration.

There has been a surge of interest, in recent years, in governance as a vehicle for the advancement of economic development. International financial institutions such as the International Monetary Fund (IMF) and the World Bank have acknowledged that "good governance is a vital adjunct to successful development efforts."[173] The United Nations Millennium Development Goals has also stressed its importance and has included a commitment to good governance in its goals.

What exactly do we really mean by governance? As underscored by David Bloom and others, there are almost as many definitions of governance as there are

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[173] Bloom et al, *Governance Matters*, 53.

commentators on the subject. They cite the Oxford English Dictionary which defines governance as "The action, manner, or fact of governing; government." Wolfgang Michalski *et al.*, of the OECD Secretariat,[174] refer to "the general exercise of authority." Daniel Kauffmann, of the World Bank Institute goes further, describing it as "the exercise of authority through formal and informal traditions and institutions for the common good." UNCTAD, meanwhile, sees governance as "the way in which the main players in society, governments, businesses and civil society, work together to make that society better." With its increasing prominence, governance now incorporates elements of many of the above definitions. It refers to how society's main driving forces, government, the private sector, and civil society formulate and implement decisions that affect the public interest. It refers, in other words, to "the rules of the game" and the 'relationship between the "players". Mechanisms of Governance range from written constitutions and legislation to informal traditions and relationships which set the framework within which these "players" act.[175] Governance operates at a number of levels, global, regional, national, and local and there are many interactions between each level. It encompasses the economic and the political, the private (i.e. corporate governance) and the public. In this section, we examine briefly how Caribbean governments have managed old and new arrangements to

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[174] Wolfgang Michalski et al., Governance in the 21st Century: Power in the Global Knowledge Economy, Organization for Economic Cooperation and Development, Paris, 2001, quoted in Bloom et al, Governance Matters, 54.

[175] Bloom et al, *Governance Matters*, 54.

achieve effective economic integration and provide a window into the region's economic prospects under the CSME.

The benefits of integration are far from automatic and effective governance at the regional and national levels are prerequisites for spreading these benefits as widely as possible domestically and regionally. Measures to empower domestic industries to compete in global markets, for example, require a reliable system of property rights to give companies and entrepreneurs the confidence to invest in their own countries as well as regionally.[176] Likewise, at the regional level, in the context of a single economic space, one needs to have an effective system of regional governance in place to facilitate the coordination of trade policy and the harmonization of related legislation in order to compete in global markets as a group. Increasing global competitiveness and complexity along with the participation of an increasing number of regional and domestic stakeholders in the political sphere underlines the urgent need for Caribbean policy makers to rethink their strategies for achieving effective economic integration. To attain some measure of efficacy, regional policy makers need to change "the rules of the game" and, thereby create an "effective system of regional governance for the optimal functioning of the agreed regional integration space."[177]

The reform of governance within the Caribbean Community in a manner that addresses its crippling implementation deficit remains an imperative for

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[176] Bloom et al, *Governance Matters*, 53-78.

[177] Caribbean Community, Managing Mature Regionalism: Regional Governance in the Caribbean Community, Report of the Technical Working Group on Governance appointed by the CARICOM Heads of Government, October 23, 2006.

effective economic integration. It needs to be addressed by the regional grouping as a matter of priority in view of the widespread concern over slow implementation among Caribbean policy makers and observers alike. While a poor implementation record can be attributed, for example, to the addition of two non-English speaking countries in recent years (Haiti and Suriname) a lack of technical and administrative capacity at the national and regional levels, there is ample evidence to show that the inadequate exercise of executive authority by CARICOM at the regional level is a major weakness. This weakness stems, to a large extent, from the reluctance of the participating governments to adopt any governance measures that might involve the relinquishing of some national sovereignty. The weakness of CARICOM's pre-CSME organizational structure goes a long way in explaining why the Community has failed to achieve a high degree of integration. Although numerous policy measures aimed at deepening integration have been proposed and debated, few concrete measures have materialized. As a result, many of the institutional handicaps that slowed progress in the past continue to do so in 2012, despite the revision of the CARICOM founding treaty.

The Revised Treaty of Chaguaramas does not represent a substantial departure from the original arrangements for the governance of CARICOM and thus fails to adequately address past impediments to progress. This treaty, for example, makes no provision for an executive body with the authority and mandate of the European Commission. The European Commission is, for example, responsible for proposing European Union legislation, upholding the

Union's treaties, running the day-to-day business of the Union and, most importantly, it is responsible for implementing decisions. The absence of such a central authority constitutes a major weakness in CARICOM's system of governance, a deficit that has impeded progress on integration in the past and continues to do so today. The hierarchical system of ministerial organs and institutions designed to preserve and protect the sovereignty of the Member States of CARICOM still poses a major challenge for the regional group's governance.

The Caribbean Community Secretariat has attempted to fill the gap in a very limited way by assuming certain of the functions of an executive body. The Secretariat services meetings convened by the Community's organs and institutions. It also monitors the implementation of decisions and initiatives and conducts studies on issues relating to CARICOM's mandates and goals. While not mandated to do so, the Secretariat has emerged over the years as the primary source and initiator of proposals promoting Caribbean integration. Some observers have attributed this to the high level of prestige enjoyed by the Secretariat among the region's governments.[178] The CARICOM Secretariat's authority is, in reality, limited to requesting information and preparing technical reports for the consideration of the Governments of CARICOM Member States. While the Secretariat is the only organ of CARICOM capable of monitoring and enforcing Community decisions and initiatives, it does not have the legal authority to do so. This weakness has handicapped efforts to advance integration.

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[178] Hall and Blake, "The Caribbean Community," 211-228.

Without robust regulations and enforcement mechanisms, even universally accepted rules and conventions become ineffective.[179] Currently, the Revised Treaty makes no provision for a mechanism to enforce rules and decisions made in the context of the CSME.

The supreme organ of the Caribbean Community before and after CSME is the Heads of Government Conference. That conference is the final authority of the Community that determines strategic policies on all aspects of integration. The Common Market Council is the second highest organ of the Community with primary responsibility for economic integration. The main administrative arm of the Community is the Caribbean Community Secretariat, headed by a Secretary-General appointed by the Heads of Government Conference. This organizational structure, based on the conception of CARICOM as a "Community of sovereign States" continues to rely heavily on the action of national governments for the implementation of Community decisions at their own discretion. This is widely perceived as an untenable handicap since action at the national level has not often been pursued with the requisite urgency needed to ensure the prompt implementation of decisions taken at the regional level.[180] As a result, the Community's ability to take decisive action on issues critical to regional economic development is very limited. The annual Conference of the CARICOM Heads of Governments remains a highly politically charged forum where effective Caribbean Community governance has been hamstrung for many years.

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[179] James M. Buchanan, *Freedom in Constitutional Contract: Perspectives of a Political Economist*. (College Station, Texas: Texas A & M University Press, 1977), 288.

[180] Caribbean Community, Managing Mature Governance, 2006, 10.

The governance of CARICOM is a long standing and thorny issue. Almost twenty years ago, the Report of the West Indian Commission identified the region's staggering implementation deficit as a serious hurdle in the quest for deeper integration and, in this connection, recommended the establishment of a CARICOM Commission i.e. "a central authority, freed of national, domestic responsibilities and allegiances, and appropriately empowered to implement CARICOM's decisions."[181] The proposed purpose that this "central authority" would serve, and how it would operate was, however, most impractical. The recommendation came with a caveat that the proposed CARICOM Commission would not preempt national action. This was, no doubt, an acknowledgement on the part of the members of the West Indian Commission of the underlying political resistance to any proposal, no matter how well founded, that could result an encroachment on individual national sovereignty. Some Caribbean analysts saw it as a capitulation and a missed opportunity for genuine change.[182] The CARICOM Commission proposed in 1992 would have had delegated executive authority to implement CARICOM decisions.

The absence of a CARICOM body with executive authority to implement CARICOM's decisions has severely hampered the progression of economic integration as a brief review of the pre-CSME period will show. In 1973, the group's founding treaty called for the establishment of a common market; three

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[181] Caribbean Community, Report of the West Indian Commission, 1992.

[182] Courtney Lindsay et al, The Caribbean Movement for Civil Empowerment, Commentary: West Indian Commission Report still haunts Caribbean integration, May 24, 2011.

decades later, that goal was far from accomplished.[183] A 2005 report of the Inter-American Development Bank, notes that "while the goal itself became more expansive," a succession of target dates set for the full implementation of the common market were later postponed, Implementation of the requisite common external tariff (CET), originally scheduled for 1981,[184] was delayed by more than ten years as CARICOM member states clung to domestic tariff levels that ensured a sustained level of revenue intake. By the 1998 deadline, most CARICOM member countries had failed to fully implement the CET.

Even as late as 2005, immediately prior to the establishment of the CSME, the CET continued to contain loopholes and some countries had yet to apply it fully. Through the Grand Anse Declaration of 1989, CARICOM Governments committed themselves to the establishment of a single market and economy "in the shortest possible time" and agreed on a number of actions to be completed by 1993;[185] that deadline was never met. In 1998, heads of government "agreed to work towards completing the implementation of the major elements of the CSME by 1999"; they, however, subsequently settled on a December 2005 implementation deadline for the main provisions of the Single Market and agreed to fully implement the Single Economy by 2008. In 2005, it was still not exactly

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[183] The Inter-American Development Bank, The CARICOM Report Number Two, August 2005.

[184] The Inter-American Development Bank, The CARICOM Report Number Two, August 2005.

[185] CARICOM Heads of Government Conference, The Grand Anse Declaration, July 1989, Grand Anse, Grenada, http://www.caricom.org/jsp/communications/meetings_statements/grand_anse_declaration.jsp (accessed 2 August 2012).

clear what was covered by the term "single economy." In May 2011, the CARICOM Heads of Government, meeting at a special retreat in Guyana, agreed to suspend the arrangements for the implementation of the "Single Economy."

The 1999, Heads of Government Conference agreed to make substantial progress in regional governance issues by 2001. In 2011, twelve years after that agreement, a final decision on governance and institutional reform is still pending. A CARICOM passport, originally planned for adoption in 2001 to facilitate intraregional travel came on stream in 2005 in only two member states (Suriname and St. Vincent & the Grenadines). In July 2002, the CARICOM Heads of Government Conference agreed to inaugurate the Caribbean Court of Justice "by the second half of 2003."[186] The inauguration finally took place in April 2005, amid continuing controversy over the Court's appellate jurisdiction. The forgoing are just a few examples of delayed implementation over many years, many of which now spill over into the CSME. While many Community initiatives have been launched, few have survived or borne any fruit. In its 2003 report, the Caribbean Expert Group on Governance, commissioned by the Twenty-fourth CARICOM Heads of Government Conference in 2003, stated in this connection that "the pace of regional activity is often frenetic, but actual movement of regional integration is on the whole pathetically slow."[187]

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[186] The Inter-American Development Bank, The CARICOM Report Number Two, 2005.

[187] Caribbean Community, Regional Integration: Carrying the Process Forward, A Report on the Establishment of a CARICOM Commission or Other Executive Mechanism, 2003.

In 2012, the sluggish implementation of the CSME continues to highlight the salience of governance in Caribbean economic integration and the need for a central executive body to more effectively implement decisions of CARICOM. The CSME is the single most ambitious economic endeavor ever contemplated by the region with a scope that is second only to that of the European Union. Despite the magnitude of the CSME's scope and far-reaching implications, its implementation is totally dependent on a form of governance founded on the idea that the CSME is "a family of sovereign states."[188] It is, therefore, hardly surprising that the individual nation states will approach regional decision-making and implementation on regional matters with no intention or inclination to transfer sovereignty to supranational regional institutions. Indeed, the former Prime Minister of Barbados said in 2005 that "it is quite simply the most difficult way by which an undertaking as complex and far-reaching as that of the reconstitution of 15 separate domestic economies into one single market and economy can be approached." [189]

The forgoing discussion indicates that, prior to 2008 the issue of a new system of governance with a CARICOM Commission, vested with executive authority had been debated and studied in various Caribbean forums on a regular basis. The accompanying political rhetoric then was carefully calibrated to convey an impression of support for an executive management system of CARICOM that could even draw on lessons from the European Commission. We have already

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[188] Arthur, Implementation of the CARICOM Single Market and Economy," 5-12.

[189] Arthur, Implementation of the CARICOM Single Market and Economy," 5-12.

discussed the recommendation of the Report of the West Indian Commission, of 1992 which first recommended a CARICOM Commission. The "Rose Hall Declaration" adopted by CARICOM Heads of Government in 2003 later called for "the establishment of a CARICOM Commission or other executive mechanism", accountable to the CARICOM Heads of Government Conference, "to exercise full-time executive responsibility for furthering implementation of Community decisions" and initiating proposals for Community action.[190] The Heads of Government also decided to appoint a Prime Ministerial Expert Group on Governance (PMEGG) to make recommendations "on the structure of regional governance consistent with the logic of regional economic integration reflected in the Revised Treaty of Chaguaramas."[191] The PMEGG subsequently recommended, *inter alia,* the establishment of a CARICOM Commission that would "exercise full-time executive responsibility for the implementation of decisions relating to the CSME and other areas of the integration process" as well as "initiate proposals for action by the Community." According to the PMEGG's recommendations, that Commission would also promote, in collaboration with Member States, a system of Community Law that would be binding on Member States and the Community.[192]

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[190] Caribbean Community, The Rose Hall Declaration on Regional Governance and Integrated Development adopted on the Occasion of the Thirtieth Anniversary of CARICOM at the Twenty-fourth Meeting of the Conference of Heads of Government of CARICOM, 2-5 July 2003.

[191] Caribbean Community, The Rose Hall Declaration, 2003.

[192] Caribbean Community, Managing Mature Regionalism, 2006.

The Prime Ministerial Expert Group on Governance was followed by a Technical Working Group appointed by the Heads of Government at their Seventeen Inter-sessional Meeting in Port of Spain, Trinidad in February 2006. The Technical Working Group was mandated to examine the PMEGG Report and suggest the most feasible options for implementing its recommendations on governance. It was clear from the terms off reference of the Technical Working Group that Heads of Government were concerned about a number of potentially contradictory provisions in some of the recommendations of the PMEGG Report that needed to be resolved. Among these possible contradictions causing the most concern was how the functions of the CARICOM Commission could be reconciled with the executive authority of national cabinets. The wide-ranging recommendations of the Technical Working Group published in October 2006 are still under consideration and, to date, no concrete action has been taken on the all-important question of Community governance.

The 2008 Heads of Government Summit marked the entry into the politics of Caribbean integration of a new Jamaican Prime Minister, Bruce Golding[193] who's declared position on regional governance was to subsequently define the level of enthusiasm for regional governance. At that summit, Golding made his position clear on the issue of governance. He argued that, while supportive of the major pillars of CARICOM such as functional co-operation and arrangements for the Single Market and Economy (CSME), his administration had no interest in a

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[193] Bruce Golding resigned his position as Prime Minister in 2011 over an unrelated matter and his party, the Jamaica Labor Party (JLP) lost the December 2011 general election. The JLP has a long history of opposing deeper regional integration dating back to the West Indies Federation.

regional management mechanism that could impact on Jamaica's national sovereignty.[194] Since none of CARICOM's most ardent advocates present at the Conference came to the defense of strong governance, it is safe to assume that that Golding's position was quietly shared by other Caribbean leaders present. Since Golding's statement in 2008, Community governance appears to have become less of a priority for regional governments as demonstrated by the deafening silence on the question of a new system of Governance coming from the Annual Summits of CARICOM Heads of Government convened in 2009, 2010 and 2011. The forgoing review of the "progress" on Community governance shows a clear deficit of political will to put in place a system of regional governance. In 2010, the Prime Minister of St. Vincent and the Grenadines, Dr. Ralph Gonsalves expressed his frustration at the slow pace of progress on regional integration suggesting that it was symptomatic of a "lack of leadership." [195] Leadership and political will are clearly variables that will feature prominently among the critical elements such as governance that define the future of the CSME. In 1988, Jacques Delors, President of the European Commission from 1985 to 1994, speaking about the extent to which the European Union would impact life in its Member States, predicted that "ten years hence, 80% of our economic legislation and perhaps even our fiscal and social legislation as well,

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[194] Bruce Golding, "Statement of the Prime Minister of Jamaica" (speech delivered at the opening ceremony of the Twenty-Ninth Meeting of the Conference of Heads of Government of the Caribbean Community, Dickenson Bay, Antigua and Barbuda, July 2, 2008).

[195] "Lack of Leadership Stifling CARICOM Integration, Says Gonsalves" Jamaica Observer, July 30, 2010, https://www.jamaicaobserver.com/news/Lack-of-leadership-stifling-Caricom-integration--says-Gonsalves_7758674 (accessed August 29, 2012).

will be of Community origin."[196] All indications are that the political leaders in the CARICOM region are not yet willing to subject their domestic political fortunes to the influence and impact of a supranational body as invasive as the EU described by Delors.

The Critical Role of Public Awareness and Support

It is a widely accepted view that public awareness and support are critical elements that can greatly contribute to the success of regional integration initiatives. The lack of public support for the West Indies Federation in the 1950s was a contributing factor to its eventual collapse in 1962 which Jamaican politicians opposed to the union used to great advantage. Public scepticism about integration of any kind continued throughout the existence of CARITA and CARICOM, the successor institutions to the Federation. Today, there is wide consensus among both stakeholders and independent observers that a considerable dearth of public information exists regarding the CSME among ordinary citizens of the Caribbean Community and as a result, there is a major credibility gap regarding its potential benefits. The extremely slow pace of treaty implementation has nurtured a high level of cynicism among many citizens. [197] Indeed, noted Caribbean diplomat, Sir Ronald Sanders, in a 2010 commentary criticized

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[196] Jacques Delors, Debates of the European Parliament, July 6, 1988, No. 2-367/140.

[197] Norman Girvan, *Towards a Single Development Vision and the Role of the Single Economy,* in Collaboration with the CARICOM Secretariat and the Special Task Force on the Single Economy, as approved by The Twenty-Eighth Meeting of The Conference of Heads of Government of the Caribbean Community (CARICOM), July 4, 2007, Barbados.

Caribbean political leaders for their failure to actively advocate for CARICOM, thus creating the public perception that "CARICOM is a useless organization that brings no benefit." [198] Many others, meanwhile, have become very apprehensive about the possible adverse effects on their welfare of increased competition for jobs and markets. It is demonstrably clear that awareness-raising and public education efforts need to be substantially enhanced.[199] Noted Caribbean economist, Norman Girvan of the University of the West Indies believes that articulating a single development vision offers an opportunity to show the public that the CSME can be a vehicle for achieving, within a regional context, certain development goals that are difficult or even impossible to achieve individually by member states.[200] That will, however, depend on how effectively political leaders can communicate to the electorate, the impact and objectives of the changes required by the CSME. [201] To date, by all accounts, Caribbean governments seem to have done a poor job of advocating for the CSME. A single vision for economic development, Girvan suggests, will also provide "a framework of shared objectives" that will guide policies and harmonize actions that facilitate the implementation of the CSME. Given the large income disparities between the member states of CARICOM, and the lack of economic convergence, it is

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[198] Ronald Sanders, "Don't Blame People for the Failures," BBC Caribbean.Com, July 13, 2010, http://www.bbc.co.uk/caribbean/news/story/2010/07/printable/100709_sanders_caribbean_failures.shtml (accessed August 29, 2012).

[199] Girvan, Towards a Single Development Vision, 14.

[200] Girvan, *Towards a Single Development Vision,*14.

[201] Arthur, "Implementation of the CARICOM Single Market and Economy," 5-12.

difficult to see how a single vision for economic development can be sustained in the face of a very sceptical regional public.

It is widely agreed among stakeholders that the goals and the mission of the CSME should not be focused exclusively on trade, investment and business opportunities. Popular support for integration requires that its economic benefits be spread broadly and evenly among all countries in the region. It will be recalled from Chapter II, in this connection, that there was little public support for a Federation of the West Indies and that its political opponents in Jamaica manipulated this to their advantage. If political leaders can effectively demonstrate the potential of integration to make a positive impact on the quality of life of each individual, this would go a long way in galvanizing public support for integration at the domestic level. The aim of any public awareness campaign should be to "nurture a holistic public perception relating to all dimensions of development."[202] According to Girvan, "there must be perceptible value added" that is directly attributable to the CSME. Functional cooperation can play a role in contributing to value added. While CARICOM has engaged in functional cooperation in a number of areas over the past 65 years, such cooperation, needs to be expanded in view of its critical role in maintaining and sustaining public support for integration. Girvan suggests several forms of functional cooperation; notably, health, human resources development, national security, foreign trade policies, and research and development as areas for further expansion.[203]

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[202] Girvan, *Towards a Single Development Vision,* 15.

[203] Girvan, *Towards a Single Development Vision*, 14.

Foreign Policy Coordination

Foreign policy coordination is an indispensable pillar of Caribbean integration. In this area, Member States of CARICOM are making satisfactory progress, adopting coordinated positions on, inter alia, international development and climate change at the United Nations and other multilateral forums. Such cooperation strengthens the Community position in its interaction with the international community, enhances capacity to negotiate external trade arrangements that support its development agenda, and strengthens the collective identity and capacity of CARICOM states in their interaction with the international community. CARICOM's Regional Negotiating Machinery provides the requisite institutional arrangements for pursuing a common external trade policy in relation issues arising at the multilateral level, for example, during the Doha Round of trade negotiations between WTO members.

Foreign Policy is one of the many areas of functional cooperation among member states of CARICOM and, thus far, it has been an unqualified success. CARTCOM partners also cooperate in a wide range of activities in the areas of health, higher education, civil aviation, to name a few. While economic integration has not lived up to expectations, functional cooperation in the area of foreign policy coordination and a wide range of other areas has meant that integration in the broadest sense has not been a total failure. When CARICOM's trade generation results are placed alongside its non-economic achievements, in other areas of functional cooperation (including common services) and the coordination of foreign and external economic policies, it is clearly not a failure.

CSME Economic Overview

In the first five years since the establishment of the CSME in 2006, the efforts of CARICOM member states to achieve macro-economic stability were seriously challenged. The relentless pace of globalization, "intensified competition" from a growing variety of participants in global trade, and "a persistent and extreme vulnerability" to economic crises and natural disasters has made the goals of sustained growth and economic development even more difficult to achieve.[204] These perennial challenges also impeded the expansion of intraregional and extra regional trade and impacted on investment inflows making more advanced regional economic integration under the CSME an uphill task.

Intraregional and Extra-regional Trade

In 2010, CARICOM published its third quinquennial report on trade and investment, a major five-year benchmark survey of a wide variety of economic indicators of critical importance to regional economic integration. The analysis to follow on trade, foreign direct investment (FDI) and macroeconomic convergence is based on data from this survey. The survey found that "almost invariably," trade increased at a faster rate than output for all CARICOM Member States. Continuing a long-standing trend, intra-regional trade as a percentage of

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[204] Caribbean Community, *Caribbean Trade and Investment Report, 2010: Strategies for Recovery, Renewal and Reform,* Caribbean Community Secretariat, 2010, http://ww.caricom.org/jsp/community_organs /ctir_2010_executive summary.pdf (accessed 12 August 2012).

CARICOM's trade with the rest of the world remained stagnant.[205] The CARICOM survey attributed the low volume of the intra-regional trade share and the absence of growth to the persistent lack of domestic and regional complementarily. It will be noted in this connection that, despite the recovery of the tourism industry in 2010, its poor linkages to the agricultural and manufacturing sectors at the domestic and regional levels precluded opportunities for growth in output. The increased demand generated by the recovery of the tourism was, for the most part, met from external sources.

As discussed in Chapter IV, the volume of intraregional trade as a percentage of trade with all trading partners for the period, 1980 to 1996 (see appendix, table 7) never exceeded 10%. For example, the value of intraregional imports as a percentage of imports from all sources ranged from 7.6% to 10%. Similarly, the value of intraregional exports as a percentage of exports to all destinations ranged from 8.7 to 18.4% for the same period (see appendix table 8). Seven years later, in a period that now includes the establishment of the CSME, trade performance showed only minimal improvement. Table 11 in the appendix shows that during that period, 2003 to 2008, intraregional imports represented, on average just over 13% of imports from all sources, while exports in the same period averaged 17%. By contrast, the volume of trade amongst European Union member states was considerably higher as shown in Table 11. In this case, intraregional imports reached almost 67% of total imports in 2004 and

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[205] Caribbean Community, *Caribbean Trade and Investment,* 2010.

intraregional exports represented, on average, 69% of exports to all countries. Such high levels of intraregional trade were the result of the European Union Member States having benefitted from centuries of trade with each other. During this time, they were able to put aside centuries of conflict and rivalry to achieve their central political goal of maintaining European peace and security. In doing so, they raised the stakes of economic cooperation and thus the cost of conflict.

As we have seen from earlier discussion, the individual member states of CARICOM, on the other hand, developed as separate and distinct units in the colonial era with far greater links to the Britain than amongst themselves. Not surprisingly, the promotion of intraregional trade was neither a necessity nor a priority at that time, thus setting the stage for the chronically low levels of intraregional trade we see today. For further comparison, we note that while the intraregional trade of NAFTA and ASEAN in Table 11 was not as great as that of the EU, it was considerably better than that of CARICOM.

According to the CARICOM Secretariat, sixty per cent of intra-regional trade was in petroleum products, reaching almost 70% of intraregional trade immediately prior to the 2009 global financial crisis (see appendix, Table 12). Trinidad and Tobago was the major beneficiary since it exported all of the petroleum products involved in intra-CARICOM trade. The significance of petroleum in CARICOM's intraregional trade reflected yet another area of vulnerability for the region as oil price increases negatively impact on individual economies in the region and, in turn, on the advancement of the CSME. The increasing number of bilateral free trade agreements with extra-regional trading

partners was in a sense, self-defeating, in that it reduced the potential for intra-regional trade expansion and reflected an underlying low level of confidence in CARICOM's regional trade framework.

Between 2004 and 2008, CARICOM's trade performance with the rest of the world was uneven, according to data presented by the CARICOM Secretariat in its 2010 survey on trade and investment. The survey showed that during that period, the trade surplus with the United States, CARICOM's largest trading partner, rose but negligibly.[206] The trade deficit with Europe, however, was eliminated by "surprisingly buoyant commodity prices" world-wide as the recession weakened at the end of 2008 and into the beginning of 2009.[207] This resulted in a trade surplus with Europe of just over 39%.[208] This performance was repeated with respect to Costa Rica where CARICOM's trade deficit became a surplus.[209] The trade surplus with Canada, Cuba and the Dominican Republic remained stable. Trade performance, however, did not improve with respect to Colombia and Venezuela. The rather significant trade deficit with Colombia continued, and that with Venezuela increased steeply as some CARICOM member states increased their imports of Venezuelan petroleum in response to

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[206] Caribbean Community, *Caribbean Trade and Investment,* 2010.

[207] International Monetary Fund, *Commodity Prices Buoyant in Year of Crisis, Recovery,* IMF Survey Magazine, December 30, 2009, http://www.imf.org/external/pubs/ft/survey/so/2009/res123009a.htm (accessed August 21, 2012).

[208] Caribbean Community, *Caribbean Trade and Investment,* 2010.

[209] Caribbean Community, *Caribbean Trade and Investment,* 2010.

very favorable credit conditions under PetroCaribe.[210] According to the Caribbean Trade and Investment Report, the region's chronic trade deficit with most of Latin America was due to the limited supply capacity alluded to earlier in this section with the language barrier being a contributing factor. The lack of supply capacity, the report concluded, would also prevent the maximization of benefits under the 2008 Economic Partnership Agreement (EPA), with the European Union as well as under other trade agreements.

The Flow of Investment

The maximization of investment inflows from all sources is important to regional economic development and the advancement of the CSME. An important aspect of that flow which needs to be considered, however, is intra-CARICOM investment. The capacity of the member states of CARICOM to raise capital from within the region has important implications for economic transformation that relate to the issue of dependency discussed in Chapter III. Investment from indigenous CARICOM sources is, however, exceedingly low, making the region highly dependent on extra-regional sources of investment capital for its economic development needs. The investment flows to LDC countries from other CARICOM member states as a percentage of total investment inflows from all sources (CARICOM and the rest of the world) peaked at just over 11 per cent

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[210] Caribbean Community, *Caribbean Trade and Investment,* 2010.

(Table 1) only in 2004, with a total of US$130.9 million, according to the CARICOM Secretariat.[211]

Table 1. Total Caribbean Investment in the LDCs as Percentage of Investment from All Sources, 2003-2008

Source of Investment	2003	2004	2005	2006	2007	2008
Caribbean	**6.81**	**11.34**	**5.51**	**2.16**	**3.87**	**1.40**

Source: Calculated from data provided by the Eastern Caribbean Central Bank (ECCB). This table was reproduced from CARICOM's Caribbean Trade and Investment Report, 2010.

Flows of investment from the lesser developed CARICOM countries (LDCs) to the Bahamas, Barbados, Jamaica, and Trinidad and Tobago (MDCs) were, in all certitude, just as low or even negligible, given the LDC's limited capacity to raise capital for their own purposes let alone for investment elsewhere. There were a large number of mergers, acquisitions and green field investment during the period but these did not increase fixed assets or result in net changes in the level of inventories according to the CARICOM Secretariat. Trinidad and Tobago, one of the wealthiest CARICOM Member States was responsible for a significant percentage of intra-CARICOM investment between 2003 and 2009, totaling approximately US$889 million in that period.[212] This is hardly surprising, given Trinidad and Tobago's preeminent position in CARICOM as an oil, natural gas

[211] Caribbean Community, *Caribbean Trade and Investment,* 2010.

[212] Caribbean Community, *Caribbean Trade and Investment,* 2010.

and petrochemicals exporter.[213] That country alone contributed approximately 30% of the regional group's GDP.

The CARICOM region is heavily reliant on sources outside of the region for investment capital. Currently, over 90 per cent of investment within CARICOM originates from external sources, continuing the region's cycle of high external dependence. Foreign Direct investment (FDI) is, therefore, a critical independent variable in the political economy of the CSME. FDI has increased rather significantly over time, moving from 21.1% in 2000 to 40% in 2009. In all other economic groups, as shown table 2 below, this percentage has tended to fall steadily over time. CARICOM's increasing reliance on FDI does not augur well for the security of the group's future economic development prospects which continue to hinge on the actions of foreign decision makers and external economic conditions over which it has no control. The global financial crisis of 2008, for example, saw investment inflows to CARICOM countries literally dry up, almost overnight, with the tourism industry being the hardest hit sector.

According to the 2010 CARICOM survey referred to earlier, FDI reached a maximum of US$6.9 billion in 2008, falling to US$3.8 billion the following year under the weight of the world-wide economic crisis.[214] In 2009, FDI accounted for over half of Gross Fixed Capital Formation in three of the fifteen CARICOM Member States, between 40 and 50 per cent in three other countries, and between

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[213] Oil, natural gas and petrochemicals account for almost half of Trinidad and Tobago's GDP according to the Government. http://www.energy.gov.tt/about_us.php?mid=142.

[214] Caribbean Community, *Caribbean Trade and Investment,* 2010.

25 and 40 per cent in five countries. This is considerably higher than that of developed economies at 9.1 percent (Table 2).

Table 2. Foreign Direct Investment as a Percentage of Gross Capital Formation

	2000	2005	2006	2007	2008	2009
CARICOM	21.1	29.1	37,9	49.4	37.8	40.0
Developed Economies	20.3	10.0	13.4	16.0	12.3	9.1
Developing Economies	15.9	11.8	13.0	13.1	12.8	9.3
Latin America and the Caribbean	25.3	14.6	14.7	16.7	15.5	14.6

Source: CARICOM using data from UNCTAD – World Investment Reports, 2005, 2010. This table was reproduced from CARICOM's Caribbean Trade and Investment Report, 2010.

While FDI can be an important catalyst for Caribbean economies, it needs careful assessment as undue reliance on this capital source could further solidify their dependency relationship with the industrialized countries funding such investment.

CARICOM reported in 2010 that the major beneficiaries of FDI were industries based on mineral and petroleum resources and the services sectors, in particular, tourism and financial services.[215] They noted in this connection that between 2003 and 2008, the tourism based economies profited from a construction boom which attracted investment primarily for hotel and resort construction. The agriculture and manufacturing industries, CARICOM said, were "virtually ignored" in that wave of investment.

The flow of FDI into the CARICOM region continues to come from traditional sources, namely, North America and Europe. In recent years, however, substantial FDI inflows have come from other sources such as Spain, China and

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[215] Caribbean Community, *Caribbean Trade and Investment,* 2010.

the Middle East. The CARICOM Secretariat has recommended to Governments a policy of intensified market diversification to include these non-traditional sources.[216] Such diversification would serve to spread the economic risk inherent in reliance on a few traditional sources and, most importantly, lessen the relationship of dependence.

The volume of FDI increased exponentially between 2000 and 2008. Notwithstanding this increase, the Caribbean Trade and Investment Report for 2010 observed that there had been little research into how this had benefited the CARICOM's region. The report suggested that further investigation would be required into the effect of FDI on local inputs, employment, wage rates, training, technology transfer, and export levels.[217] While no specific studies have been conducted, experience has shown that in developing countries these benefits have been minimal.[218] Assaf Razin concurs, observing that data on the extent "of the specific benefits of FDI inflows to emerging markets is still very sketchy."[219] Loungani and Razin, while acknowledging that FDI has provided some benefits to its recipients, warn that this capital source requires careful assessment.[220] The CARICOM Secretariat believes that policy makers need to focus less on attracting

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[216] Caribbean Community, *Caribbean Trade and Investment,* 2010.

[217] Caribbean Community, *Caribbean Trade and Investment,* 2010.

[218] Axline, *Caribbean Integration*, 17.

[219] Assaf Razin, FDI Flows: A Critical Look, The National Bureau of Economic Research, Spring 2002, https://www.nber.org/reporter/spring02/razin.html (Accessed 15 August 2012).

[220] Prakash Loungani and Assaf Razin, "How Beneficial Is Foreign Direct Investment?" *Finance and Development* 38 no. 2 (June 2001):6-10.

investment through very generous incentives and more on identifying and extracting its tangible benefits.[221] The CARICOM region has never had a uniform approach to attracting investment inflows as each Government has pursued its own path in that regard. Efforts have been made to achieve policy convergence in this area through the harmonization investment policy under the CSME.

Economic Convergence

The achievement of macroeconomic convergence is a key element of the CSME and is particularly critical to the Single Economy component of this arrangement. It is noted, in this connection, that Article 6 (c) of the Revised Treaty of Chaguaramas specifically lists convergence as an objective of the CSME. In the field of economics, "convergence" refers to two distinct macroeconomic processes. Firstly, it refers to the cross-country convergence of output levels when poorer countries take advantage of infusions of capital and new technology to "catch-up" with the richer but slower growing richer countries. Secondly, convergence refers to the alignment of certain macroeconomic criteria within a specific group of countries, as a "prerequisite for, or as the outcome of, a successful monetary integration agreement."[222] This section focuses on the latter interpretation of the term.

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[221] Caribbean Community, *Caribbean Trade and Investment,* 2010.

[222] Alberto Bagnai, "Macroeconomic Convergence in Central Africa: A Survey of the Theory and Empirical Evidence" (paper presented at the UNECA workshop "Enhancing the capacity of member States to achieve macroeconomic policy convergence in Central and Western Africa," Ouagadougou, Burkina Faso, June 29 to July 2, 2010); The Economist, http://www.economist.com/economics-a-to-z/c#node-21529531.

CARICOM, in its 2010 report on trade and investment, underlined the threat to regional political cohesion and macroeconomic convergence from the gaping disparities in income and living standards between Member States, arguing that these could exacerbate any pre-existing tendencies towards regional instability.[223] According to that report, data on regional patterns of income and growth over the last ten years suggests that economic convergence is unlikely. There are, however, signs of a somewhat perverse trend towards economic convergence. CARICOM's analysts attribute this reversal to the global financial and economic crisis which has seen a narrowing of per capita income gaps among CARICOM Member States.[224] These analysts argue that "the economies that have maintained positive rates of growth," typically those based on natural resources were now catching up with the higher-earning economies based on the highly volatile tourist industry. Economic convergence of this kind, predicated on the vulnerability of some economies is undesirable. Experience has shown that vulnerable economies should strengthen their resilience to external economic shocks through a diversified economic structure. Heavy reliance on FDI, for example, especially in tourism-based economies, can be disastrous in the event of an economic and financial crisis of the magnitude of that of 2008-2009 which drastically reduced investment inflows and employment. Table 3 below shows that tourism based economies such as Antigua and Barbuda, Barbados, Grenada,

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[223] Caribbean Community, *Caribbean Trade and Investment,* 2010.

[224] Caribbean Community, *Caribbean Trade and Investment,* 2010.

St. Lucia and St. Kitts and Nevis experienced the highest levels of negative growth in 2009 at the height of the economic crisis.

Table 3. CARICOM Growth during the Economic Crisis

Countries	Growth rates (%)		
	2009	**2010**	**2011**
Antigua and Barbuda	-8.9	-4.1	3.1
The Bahamas	-4.3	-0.5	1.5
Barbados	-5.5	-0.5	3.0
Belize	0.0	2.0	2.3
Dominica	-0.3	1.4	2.5
Grenada	-7.7	0.8	2.0
Guyana	3.0	2.9	3.1
Haiti	2.9	-8.5	9,8
Jamaica	-3.0	-0.1	1.8
S. Kitts and Nevis	-5.5	-1.5	0.5
Saint Lucia	-5.2	1.1	2.3
St. Vincent and the Grenadines	-1.0	0.5	2.0
Suriname	2.5	4.0	4.7
Trinidad and Tobago	-3.5	1.2	2.5

Source: IMF World Economic Outlook, April, 2009. This table was reproduced from the Caribbean Trade and Investment Report, 2010.

These countries also experienced slower recoveries in 2011, achieving, at most, 3.1% growth. Suriname and Haiti with natural resource-based economies experienced the highest levels of growth and recovery in 2011 at 4.7% and 9.8% respectively. In the case of Suriname, the economy continued to grow despite the recession between 2009 and 2011 and growth never fell below 2.5%. Haiti's phenomenal growth rate of 9.8% was, in all likelihood due to its inordinate capacity for expansion and recovery immediately following the devastating 2010 earthquake. Most countries have a particularly high capacity to expand rather quickly following natural disasters but such growth levels usually tapers off once

the economy begins to approach pre-disaster levels of economic activity.

It is clear from the forgoing that market and investor diversification is an important strategy to be considered in order to break the cycle of dependence and ensure the genuine economic convergence that is so vital to the success of the CSME.

Table 4. Average Per Capita Income of CARICOM Member States Compared with Average Per Capita Income of OECD Countries for 1995, 2000, 2005 and 2008

	US$			
	1995	**2000**	**2005**	**2008**
Average CARICOM	4,387	5,900	7,186	8,629
Average OECD	21,592	21,090	32,879	42,592
CARICOM as % of OECD	20.3	28.0	21.9	20.2

Notes: Because of the unavailability of the data for 2008 for The Bahamas, Barbados and Suriname, the 2007 figure is used instead
Source: CARICOM Secretariat and OECD Website.

As discussed earlier, income disparities within CARICOM are a concern and the data presented in Chapter IV bears this out. Also of concern is the wide disparity in income between the industrialized world and CARICOM. Table 4 above shows that in 2008, the per capita income of CARICOM was only 20% of that of the OECD. This level of income disparity is unlikely to change in the foreseeable future and begs the question: will CARICOM ever achieve global competitiveness? By all accounts, the answer is that this is not very likely, which brings us back to the fundamental question addressed by this thesis: is the CSME any different from its predecessors? Thus far, the economic conditions (trade and

investment) under which the CSME operates have remained unchanged and the economic results have, so far, differed only minimally from those of the previous regional integration arrangements discussed in Chapter V.

The inability to expand intraregional and extra-regional trade and to establish effective linkages between industries has meant continued high levels of unemployment (in the double digits) in most CARICOM countries.[225] Public sector investment programmes need, as a matter of priority, to focus on society's most vulnerable in order to ensure political, economic and social stability.

Macro-economic policy harmonization or convergence is central to the CSME agenda as it is critical to ensuring economic and financial stability and is a prerequisite for a common currency. Convergence in the context of the CSME involves five macroeconomic fundamentals on which the criteria for convergence are based. These relate to adequate foreign exchange reserves; exchange rate stability of floating currencies; external debt servicing; inflation; and the fiscal deficit management. As demonstrated by the table below, CARICOM countries have consistently struggled to meet the convergence criteria in these areas, especially the requirement to repay principal and interest on external debt at less than 15 per cent of foreign exchange earnings.[226] Between 2000 and 2009, no more than three of the 15 CARICOM countries met this convergence criterion. Table 5 below shows that during the same period, no more than 7 of the 15

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[225] Ewart Williams, "The Global Financial Crisis: Institutional Management and Regional Opportunities." (Lecture by the Governor of the Central Bank of Trinidad & Tobago delivered at the Caribbean Law Institute Inaugural Symposium on Current Developments in Caribbean Community Law, Port-of-Spain, Trinidad, November 10, 2009).

[226] Caribbean Community, *Caribbean Trade and Investment,* 2010.

CARICOM member states met any of the convergence requirements.

Table 5. Number of CARICOM Countries Meeting Convergence Requirements

Year	Import Cover	Exchange Rate	Debt Service	Inflation	Fiscal Stance
2000	5	5	2	5	5
2001	6	5	3	5	4
2002	6	4	2	4	3
2003	6	5	2	4	5
2004	7	4	2	3	5
2005	4	5	3(1)	3	5
2006	5	4	2	2	5
2007	3	5	1	3	6
2008	2(1)	6	1(2)	3	4(1)
2009	7(1)	7	2(3)	5	1(2)

Notes:

(1) The number of times the exchange rate criterion was met is based on the number of countries that were able to maintain the quarterly changes in the exchange rate within the band in the current year.

(2) The number of missing data points over the period is placed in parenthesis

Source: Caribbean Centre for Money and Finance

The CARICOM region's extreme vulnerability to external economic shocks has made it very difficult for the region to meet the convergence requirements of the CSME. Economic events in extra-regional economies, particularly in the major world economies such as the USA, Japan, the European Union (EU), Canada, and China directly impact on Caribbean economies. Additionally, economic crises in the United Kingdom and the United States, the Caribbean's major sources of tourists, invariably reduce the number of tourist arrivals from these countries and the income earned from tourism. As we have seen, the world economic crisis of 2008-2009 took its toll on the fragile tourist industry of the

Caribbean Region. As the main foreign exchange earner and largest employer in most CARICOM economies, tourism has been severely impacted by the crisis.[227] Combined with reduced income from tourism, drastic reductions in some commodity prices resulted in double-digit unemployment levels in many of the member states of CARICOM.[228]

The Region is also vulnerable to a variety of natural disasters which directly affect its ability to meet the critical convergence criteria. These include floods, droughts; tropical storms and hurricanes; landslides; earthquakes; tsunamis and volcanic events such as the January 20010 earthquake in Haiti. These natural hazards disturb the natural environment, resulting in severe social and economic dislocation, medical trauma, housing damage and the loss of life. Additionally, the ongoing phenomenon of global warming and consequent climate change has led to more extreme weather including stronger hurricanes in the Caribbean region.

There is very little, if anything, that can be done to avoid the effects of independent variables such as natural disasters and the economic variables are unlikely to improve in the short or medium term. With the latter in mind, the CARICOM Heads of Government decided in May 2011 to suspend the implementation of the Single Economy in view of difficulties in achieving, inter alia, critical convergence criteria for establishing a common currency.

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[227] Christopher Hackett, "Trade and Development," (Statement on behalf of the Government of Barbados to the Second Committee of the Sixty-fourth Session of the United Nations General Assembly, New York, NY, 29 October 2009).

[228] Ewart Williams, "The Global Financial Crisis, 2009.

Conclusion

What obviously distinguishes the CSME from the preceding integration models introduced in 1968 and 1973 is its founding treaty, the Revised Treaty of Chaguaramas. That treaty requires CARICOM Member States to make sweeping changes that will potentially create new winners and new losers and, therefore, have important political implications for the individual economies. The treaties that established the Caribbean Free Trade Area (CARIFTA) and the Caribbean Community (CARICOM) were very limited in their effect and scope. They were, essentially, the result of numerous compromises. These compromises were deemed necessary in order to allay the concerns of political leaders of the Member States responding to the rather insular domestic political pressures of their electorates. The resulting agreements were, therefore, influenced more by the survival instincts of these politicians than an objective assessment of the requirements for successful economic integration leading to sustainable economic development. Are the conditions for integration any different in the first decade of the twenty-first century? The answer is no, in terms of the perennial political and economic challenges that face the Caribbean and yes, in terms of the globalization process and its effects and the required response.

The Revised Treaty of Chaguaramas and the CSME it creates is, on paper, a rather ambitious endeavor, second only to the European Union. That ambition, however, is not matched by the requisite political will and strong commitment to carry it forward. The failure of Caribbean Governments to implement an effective system of governance for the direct and independent exercise of executive

authority to implement CARICOM decisions is a critical weakness of the CSME. The foregoing analysis has shown that while the renewed political will that led to the establishment of the CSME might have overcome past stalemates in the integration arena that commitment still falls far short of the unified force required to create the robust and deeper form of integration needed to stay afloat in the relentless tidal flow of economic globalization. What will fundamentally distinguish the new Caribbean Single Market and Economy (CSME) and increase its sustainability is the demonstration of sustained political will to make the difficult economic and political choices required to fully implement the CSME. That will, in turn, depend on how effectively political leaders in the region can communicate to civil society, i.e. the electorate, the purpose of the changes required by the CSME, "its intended effect and impact." [229]

Why has the experiment with economic integration failed to reach its expected economic potential after over sixty years of trying? Theorists have advanced several contributing factors to the continuing poor performance of Caribbean economic integration. These include small market size, extremely open and dependent economies, intraregional conflict and mistrust between the least developed countries (LDCs) and the more developed countries (MDCs) of the Caribbean over the relative benefits of integration, a narrow band of exports, and an inability to escape the trauma of their colonial past. Not much has changed in terms of the attributes of the Caribbean Community and the nature of the

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[229] Arthur, "Implementation of the CARICOM Single Market and Economy," 5-12.

challenges it faces. The individual states and territories which comprise CARICOM, of course, remain physically small. While their populations have grown considerably since the first attempts to unite politically under the West Indies Federation, in 1958, their individual economies remain small as only a small number can participate through employment in the formal economy. Attempts to increase the size of the domestic markets through economic integration have yielded poor results as evidenced in the forgoing economic overview, with indications of little growth in intra-regional trade and investment prior to and during the first years of the CSME.

Additionally, the region continues its highly dependent relationship with the industrialized world for both export markets and foreign direct investment (FDI). We have seen that 90% of FDI emanates from traditional sources in North America and Europe and, as a result, the individual economies in the CARICOM region remain more integrated with the industrialized world than with each other. Some of the forgoing challenges can be effectively tackled by concerted action on the part of political leaders in the Caribbean. Perceived threats to sovereignty and an underlying nationalism have always been a significant problem for Caribbean integration. The uncompromising national political interests of individual participants in the integration process have been highly significant stumbling blocks to successful economic integration and must be set aside. If the Caribbean is to succeed in its latest attempt at integration, its leaders will first need to directly address this issue in the context of the CSME. The Caribbean's historical legacy has, so far, been marked by a series of missed or possibly squandered

opportunities, which resulted in the stultification of progress towards successful integration whether political or economic. I contend that the political will of Caribbean politicians or lack, thereof, will continue to be the most influential variable that will largely determine the prospects for the success and sustainability of the latest attempt at deepening regional economic integration through the CSME. The realities of the current international economic and political environment urgently demand that Caribbean politicians fundamentally rethink their approach to economic integration.

Economic globalization and the economic and financial liberalization it implies has proven, thus far, to be the critical independent variable and the powerful catalyst needed to force the CARICOM region closer together to ensure its survival. The result, thus far, has been the Revised Treaty of Chaguaramas and the CSME. Economic globalization could also be the critical factor that determines whether or not the CSME will achieve its stated goals, given its catalytic effect on the political will of Caribbean politicians to integrate. For many years, Caribbean integration mirrored the Tower of Babel where many competing interests, both political and economic, replaced many tongues as the seemingly insuperable barrier to the tower of economic integration. As globalization continues its relentless march and the rest of the world speaks the common language of liberalization, political leaders in the Caribbean will be left with no other choice but to go the extra step to ensure the collective economic survival of CARICOM Member States.

One final policy implication that needs to be considered is whether the CSME will become irrelevant alongside other integration processes in which CARICOM is involved, such as the FTAA. In 2004, the Prime Minister of Barbados, Owen Arthur surmised that "as long as the CSME can provide its participating territories with faster, broader and deeper liberalization in all spheres than that which is afforded to them under the FTAA, it is conceivable that it should not only co-exist with the FTAA, but continue to be a major driver of Caribbean economic transformation." [230] Arthur cautioned, on the other hand, that the failure of the CSME would render it irrelevant as CSME stakeholders seek alternative avenues for pursuing their economic development goals.[231] Today, the CSME, the latest attempt at deeper integration struggles to remain economically relevant as not much has changed in the nature of CSME Member States' economic relationship with the industrialized nations and with each other.

Despite its many challenges, Caribbean regional integration in the broad sense has not been a total failure. CARICOM member states currently engage in a wide range of functional cooperation activities for their mutual benefit. These range from higher education to foreign policy coordination. They are the ties that bind the region together. From an economic integration standpoint, the CSME will continue to face many challenges, some of its own making and others, the

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[230] Owen Arthur, Feature address by the Prime Minister of Barbados, to the American Business and.jsp (accessed Consulting Group Special Symposium on "Implementation of the CARICOM Single Market and Economy, and its Implications for US-CARICOM Economic Relations" 2nd April 2004, Brooklyn, New York. http://www.caricom.org/jsp/speeches/csme _caricom _usrelations_arthurJanuary 17, 2012).

[231] Arthur, Feature address by the Prime Minister of Barbados.

result of economic events over which the regional grouping has no control. In that latter context, the CSME appears, at this time, to be the resuscitation of an old dream and not the new beginning that a rebirth always implies.

Appendix

Table 6: CARICOM GDP by sector

Country	Sector	1980	1990	2000[a]
Antigua and Barbuda				
	Agriculture	7.1	4.2	3.9
	Industry	18.1	20.1	19.1
	Of that: Manufacturing	5.3	3.4	2.2
	Services	74.8	75.0	77.0
Bahamas				
	No data available			
Barbados				
	Agriculture	9.9	7.4	6.3
	Industry	22.5	19.7	21.0
	Of that: Manufacturing	11.9	10.1	9.0
	Services	67.5	72.9	72.8
Belize				
	Agriculture	27.4	20.7	21.4
	Industry	30.9	25.4	20.7
	Of that: Manufacturing	23.9	14.9	17.4
	Services	41.7	53.8	51.6
Dominica				
	Agriculture	30.7	25.0	17.4
	Industry	20.9	18.6	23.5
	Of that: Manufacturing	4.8	7.1	8.3
	Services	48.4	56.4	59.1
Grenada				
	Agriculture	24.7	13.4	7.7
	Industry	13.1	18.0	23.9
	Of that: Manufacturing	3.8	6.6	7.6
	Services	62.2	68.6	68.3
Guyana				
	Agriculture	23.4	38.1	35.1
	Industry	35.8	24.9	28.5
	Of that: Manufacturing	12.1	10.3	10.1
	Services	40.9	37.0	36.4
Haiti				
	Agriculture	n.a.	33.3	29.6
	Industry	n.a.	21.8	21.1

Table 6 continued

	Of that: Manufacturing	n.a.	15.7	7.1
	Services	n.a.	45.0	49.3
Jamaica				
	Agriculture	8.2	6.5	6.5
	Industry	38.3	43.2	31.3
	Of that: Manufacturing	16.6	19.5	13.4
	Services	53.5	50.4	62.2
St. Kitts and Nevis				
	Agriculture	15.9	6.5	3.6
	Industry	26.6	28.9	26.0
	Of that: Manufacturing	15.2	12.8	10.4
	Services	57.5	64.6	70.4
St. Lucia				
	Agriculture	14.4	14.5	7.9
	Industry	23.6	18.1	19.6
	Of that: Manufacturing	10.5	8.1	5.5
	Services	62.0	67.3	72.5
St. Vincent and the Grenadines				
	Agriculture	14.3	21.2	9.8
	Industry	26.5	22.9	25.5
	Of that: Manufacturing	10.5	8.5	6.3
	Services	59.2	55.9	64.7
Suriname				
	Agriculture	9.1	11.2	9.7
	Industry	38.9	27.3	20.4
	Of that: Manufacturing	18.6	13.3	7.8
	Services	2.0	61.5	69.9
Trinidad and Tobago				
	Agriculture	2.3	2.5	1.6
	Industry	62.5	46.2	43.2
	Of that: Manufacturing	8.9	8.6	7.7
	Services	35.2	51.2	55.2

a) for Guyana 1999

Source: The World Bank, www.worldbank.org/data/countrydata/countrydata.html#DataProfiles

TABLE 7. VALUE OF INTRA-REGIONAL IMPORTS AND AS A PERCENTAGE OF TOTAL IMPORTS FROM ALL SOURCES: 1980-1996
(In Thousands of Eastern Caribbean Dollars)

CARICOM COUNTRIES	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995(b)	1996(c)
CARICOM (A)	1411572	1615386	1540642	1371170	1204307	1141577	811142	877955	1014823	1252851	1350299	1305882	1363055	1500994	1689726	1912428	1922439
MDCs	1055589	1277088	1238022	1086942	916303	831355	508608	527604	596816	794307	813195	762183	772486	892315	1033695	1353137	1339179
Barbados	269282	245803	219531	206332	208914	238752	170049	193415	219773	248700	295551	274730	269338	292364	319368	333918	335300
Guyana	253609	385359	310059	215113	228938	213760	89575	35136	39033	99856	66788	85237	116821	146612	147121	...	...
Jamaica	231253	301559	247288	184605	99374	114703	86430	159204	151003	245143	236842	182470	181759	311617	402607	677276	775833
Suriname	(d)	d)	d)	d)	d)	d)	d)	d)	d)	d)	d)	d)	d)	d)	d)	131763	...
Trinidad and Tobago	301445	344367	461144	480892	379077	264140	162554	139849	187007	200608	214014	219746	204568	141722	164599	210180	228046
LDC's	355983	338298	302620	284228	288004	310222	302534	350351	418007	458544	537104	543699	590569	608679	656031	559291	583260
Belize	6460	8464	6375	5194	5261	6148	7109	9137	22677	27571	35072	18594	29159	29243	30317	34463	28806
OECS	349523	329834	296245	279034	282743	304074	295425	341214	395330	430973	502032	525105	561410	579436	625714	524828	554454
Antigua and Barbuda	116166	94553	76588	79908	80410	83592	58039	66735	84111	75343	92753	72654	92890	89844	118117	---	---
Dominica	34501	36056	34912	32862	32732	37023	38546	54245	62528	57134	67749	71006	72319	64829	76449	85202	86607
Grenada	44510	46393	45759	38662	37306	42364	48976	48712	52165	61021	69492	74756	78477	107247	91646	95341	108301
Montserrat	11690	11119	11217	10714	11248	10337	9254	12926	14761	14575	21229	25722	22140	18304	18602	---	---
St. Kitts & Nevis	25492	25897	23214	25891	27377	27091	31063	35614	36124	43057	43020	54192	47589	55652	56067	61618	70440
Saint Lucia	72348	73463	61315	48555	53857	64593	65814	72178	93170	114731	131527	137623	156025	158359	172481	184213	184809
St. Vincent & The Grenadines	44818	42353	43240	42442	39813	39074	43733	50804	52471	65112	76282	89152	91970	85201	92352	98454	104297
(B) Value of CARICOM's imports from all sources	15993165	16931571	17646805	14863024	12424560	11286988	10627897	10981311	11786707	13783703	14194866	15441101	14356031	15905164	(a) 1538222-2	19576286	19157499
(A)/(B)(%)	8,8	9,5	8,7	9,2	9,7	10,1	7,6	8,0	8,6	9,1	9,5	8,5	9,5	9,4	11,0	9,8	10,0

Notes: (a) Excludes data for Antigua & Barbuda.(b) Excludes data for Antigua & Barbuda, Guyana and Montserrat.(c) Excludes data for Antigua & Barbuda, Guyana, Montserrat and Suriname.(d) Antigua and Barbuda's figures for 1992 - 1994 are Estimates. (Source: CARICOM)

TABLE 8. VALUE OF INTRA-REGIONAL DOMESTIC EXPORTS AND AS A PERCENTAGE OF DOMESTIC EXPORTS TO ALL DESTINATIONS: 1980-1996 (In Thousands of Eastern Caribbean Dollars)

CARICOM COUNTRIES	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991(a)	1992 (b)	1993(c)	1994 (c)	1995(c)	1996 (d)
CARICOM (A)	1341237	1417754	1403864	1290303	1091213	1092411	748654	798987	953323	1175439	1283557	1126599	1125153	1337281	1639113	2147875	2189623
MDCs	1225369	1270897	1209773	1065096	872350	878006	547612	620694	722235	960338	1058873	926283	940580	1158829	1445952	1949655	2005886
Barbados	113135	130630	159059	162629	135672	95184	76004	72108	96319	135247	143028	143704	143358	165790	144168	195495	232386
Guyana	143784	160311	105679	83804	65475	49379	32712	25959	27280	33865	33264	...	...	...	...	...	...
Jamaica	152368	183161	208834	261052	243766	208768	110581	120936	156509	178069	190249	268108	257979	256514	351396	453054	437496
Suriname	(e)	e)	e)	e)	e)	e)	e)	e)	e)	e)	e)	e)	e)	e)	e)	30412	...
Trinidad and Tobago	816082	796795	736201	557611	427437	624675	328315	400691	442127	613157	692232	614411	639243	836525	1130388	1570694	1636004
LDC's	115868	146857	194091	225207	218863	214405	201642	178293	231088	215101	224684	200316	184573	178452	184161	198220	183737
Belize	15127	7827	18696	25281	28601	8814	3876	21504	22143	22259	22521	18073	26250	12798	13132	14678	12427
OECS	100741	139030	175395	199926	200262	205591	197166	156789	208945	192842	202163	182243	168323	165653	171029	183542	171310
Antigua and Barbuda	16002	29778	22246	27427	34961	31991	30758	30136	42704	42655	46993	9419	...	...	...	...	...
Dominica	16296	21916	29445	35852	30259	27385	27788	25301	29825	33747	34678	35656	40807	38655	46337	50383	64001
Grenada	4223	10525	15324	18771	17071	21102	17706	11554	12874	14195	16206	18996	...	15823	13522	14591	14541
Montserrat	1076	2335	1975	2773	2171	762	525	627	335	236	99	218	371	525	806	501	651
St. Kitts & Nevis	11262	9693	10859	11526	11567	15289	8394	5790	5491	6102	6996	7718	7261	2538	4728	5118	968
Saint Lucia	34738	45676	46462	42375	42825	25489	32774	43090	25165	25039	24686	44442	26376	35688	26365	41646	27454
St. Vincent & The Grenadines	17144	28077	49084	61200	91408	103573	99220	60291	92461	70850	70905	65794	83408	69404	69271	71303	63685
(B) VALUE OF CARICOM'S DOMESTIC																	
	2546185	3430103	3176809								3045200				3034721	3309355	3186879
EXPORTS TO ALL DETINATIONS	?	6	?	9903821	9948828	8942481	7092081	7471406	7962843	8882619	3	9458115	9114840	8400198	5	8	0
(A)/(B)(%)	8,7	9,9	11,9	13,0	11,3	12,2	10,6	10,7	12,0	13,2	12,3	11,9	12,3	15,9	15,8	16,4	18,4

Notes: (a) Excludes data for Guyana. (b) Excludes data for Antigua and Barbuda, Grenada and Guyana. (c) Excludes data for Antigua and Barbuda and Guyana. (d) Excludes data for Antigua and Barbuda, Guyana and Suriname. (e) Suriname became a full member of the Caribbean Community and Common Market (CARICOM) in July 1995. Hence, prior to 1995, data for Suriname would not be included in CARICOM's trade.

TABLE 9. PERCENTAGE DISTRIBUTION OF INTRA-REGIONAL DOMESTIC EXPORTS BY CARICOM COUNTRIES: 1980-1996

CARICOM COUNTRIES	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991(a)	1992 (b)	1993(c)	1994 (c)	1995(c)	1996 (d)
CARICOM	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
MDCs	91,4	89,6	86,2	82,5	79,9	80,4	73,1	77,7	75,8	81,7	82,5	82,2	83,6	86,7	88,7	90,8	91,6
Barbados	8,4	9,2	11,3	12,6	12,4	8,7	10,2	9,0	10,1	11,5	11,1	12,8	12,7	12,4	8,8	9,1	10,6
Guyana	10,7	11,2	7,5	6,5	6,0	4,5	4,4	3,4	2,9	2,9	2,6	...	...	...	...	...	...
Jamaica	11,4	12,9	14,9	10,2	13,2	10,0	14,8	15,1	16,4	15,1	14,8	14,9	14,0	11,7	9,3	7,1	6,3
Suriname	(e)	(e)	(e)	(e)	(e)	(e)	(e)	(e)	(e)	(e)	(e)	(e)	(e)	(e)	(e)	1,4	...
Trinidad and Tobago	69,8	56,2	52,4	43,2	48,3	57,2	43,9	50,1	46,4	52,2	53,9	54,2	56,8	62,6	70,6	73,1	74,7
LDC's	8,6	10,4	13,8	17,5	20,1	19,6	26,9	22,3	24,2	18,3	17,5	17,8	16,4	13,3	11,3	9,2	8,4
Belize	1,1	0,6	1,3	2,0	1,7	0,8	0,5	2,7	2,3	1,9	1,8	1,6	1,4	1,0	0,8	0,7	0,6
OECS	7,5	9,8	12,5	15,5	18,4	18,8	26,3	19,6	21,9	16,4	15,8	16,2	15,0	12,4	10,5	8,5	7,8
Antigua and Barbuda	1,2	1,5	1,6	2,1	1,4	1,1	1,4	1,3	1,3	1,1	1,3	0,8	...	...	...	...	...
Dominica	1,1	1,5	2,1	2,8	2,8	2,5	3,7	3,2	3,1	2,9	2,9	3,2	3,6	2,9	2,8	2,3	2,9
Grenada	0,4	0,7	1,1	1,5	1,6	1,9	2,4	1,4	1,4	1,2	1,3	1,7	...	1,2	0,8	0,7	0,7
Montserrat	0,1	0,2	0,1	0,2	0,2	0,1	0,1	0,1	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
St. Kitts & Nevis	0,8	0,7	0,8	0,9	1,1	1,4	1,1	0,7	0,6	0,5	0,5	0,7	0,6	0,4	0,3	0,2	0,0
Saint Lucia	2,6	3,2	3,3	3,3	3,0	2,3	4,4	5,4	5,8	4,7	4,3	3,9	3,2	2,7	2,2	1,9	1,3
St. Vincent & The Grenadines	1,3	2,0	2,5	4,7	8,4	9,5	13,3	7,5	9,7	6,0	5,5	5,8	7,4	5,2	4,2	3,3	2,9

Source: http://www.caricom.org/statistics/tables/table8.4.htm

Notes: (a) Excludes data for Guyana. (b) Excludes data for Antigua and Barbuda, Grenada and Guyana. (c) Excludes data for Antigua and Barbuda and Guyana. (d) Excludes data for Antigua and Barbuda, Guyana and Suriname. (e) Suriname became a full member of the Caribbean Community and Common Market (CARICOM) in July 1995. Hence, prior to 1995, data for Suriname would not be included in CARICOM's trade.

TABLE 10. BALANCES OF CARICOM'S INTRA-REGIONAL TRADE, DISAGGREGATED BY CARICOM MEMBER STATES: 1981-1984 (In Thousands of Eastern Caribbean Dollars)

	1981			1982			1983			1984		
CARICOM COUNTRY	Imports	Total exports	BALANCE OF TRADE	Imports	Total Exports	BALANCE OF TRADE	Imports	Total EXPORTS	BALANCE OF TRADE	Imports	TOTAL EXPORTS	BALANCE OF TRADE
CARICOM	1615386	1504453		1540642	1479898		1371170	1355291		1204307	1237192	
MDC's	1277088	1329124	52036	1238022	1270587	32565	1086942	1110612	23670	916303	1001620	85317
Barbados	245803	163467	-82336	219531	190624	-28907	206332	187628	-18704	208914	237422	28508
Guyana	385359	161599	-223760	310059	116716	-193343	215113	86612	-128501	228938	68293	-160645
Jamaica	301559	185505	-116054	247288	212215	-35073	184605	264493	79888	99374	146124	46750
Suriname	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)
Trinidad and Tobago	344367	818553	474186	461144	751032	289888	480892	571879	90987	379077	549781	170704
LDC's	338298	175329	-162969	302620	209311	-93309	284228	242679	-41549	288004	235572	-52432
Belize	8464	8331	-133	6375	19454	13079	5194	26050	20856	5261	18804	13543
OECS	329834	166998	-162836	296245	189857	-106388	279034	216629	-62405	282743	216768	-65975
Antigua and Barbuda	94555	41399	-53154	76588	31002	-45586	79908	37996	-41912	80410	25397	-55013
Dominica	36056	22196	-13860	34912	29851	-5061	32862	36377	3515	32732	31881	-851
Grenada	46393	11329	-35064	45759	15884	-29875	32862	19531	-19131	37306	17627	-19679
Montserrat	11119	2335	-8784	11217	1975	-9242	10714	2775	-7939	11248	2171	-9077
St. Kitts & Nevis	25897	10509	-15388	23214	11163	-12051	25891	12040	-13851	27377	12049	-15328
Saint Lucia	73463	10509	-23562	61315	48984	-12331	48555	45527	-3028	53857	35251	-18606
St. Vincent & The Grenadines	42353	29329	-13024	43240	50998	7758	42442	62383	19941	39813	92392	52579

TABLE 10 (cont'd): BALANCES OF CARICOM'S INTRA-REGIONAL TRADE, DISAGGREGATED BY CARICOM MEMBER STATES: 1985-1988 (In Thousands of Eastern Caribbean Dollars)

	1985			1986			1987			1988		
CARICOM COUNTRY	Imports*	Total exports	BALANCE OF TRADE	Imports	Total Exports	BALANCE OF TRADE	Imports	Total EXPORTS	BALANCE OF TRADE	Imports	TOTAL EXPORTS	BALANCE OF TRADE
CARICOM	1141577	1251147		811142	839797		877955	871386		1014823	1038653	
MDC's	831355	1016130	184775	508608	616991	108383	527604	665502	137898	596816	776493	179677
Barbados	238752	216727	-22025	170049	129700	-40349	193415	101017	-92398	219773	127846	-91927
Guyana	213760	50504	-163256	89575	33778	-55797	35136	27629	-7507	39033	28171	-10862
Jamaica	114703	110414	-4289	86430	113120	26690	159204	123154	-36050	151003	159719	8716
Suriname	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)
Trinidad and Tobago	264140	638485	374345	162554	340393	177839	139849	413702	273853	187007	460757	273750
LDC's	310222	255017	-75205	302534	222806	-79728	350351	205884	-144467	418007	262160	-155847
Belize	6148	9180	3032	7109	4227	-2882	9157	21665	12528	22677	22380	-297
OECS	304074	225837	-78237	295425	218579	-76846	341214	184219	-156995	395330	239780	-155550
Antigua and Barbuda	83592	25321	-58271	58039	21237	-36802	66735	24674	-42061	84111	26735	-57376
Dominica	37023	29385	-7638	38546	30537	-8009	54245	31716	-22529	62528	31670	-30858
Grenada	42364	21673	-20691	48976	18703	-30273	48712	12893	-35819	52165	18279	-33886
Montserrat	10337	762	-9575	9254	525	-8729	12926	627	-12299	14761	335	-14426
St. Kitts & Nevis	27091	16479	-10612	31063	9881	-21182	35614	7457	-28157	36124	7288	-28836
Saint Lucia	64593	27695	-36898	65814	37642	-28172	72178	45769	-26409	93170	59534	-33636
St. Vincent & The Grenadines	39074	104522	65448	43733	100054	56321	50804	61083	10279	52471	95939	43468

TABLE 10 (cont'd): BALANCES OF CARICOM'S INTRA-REGIONAL TRADE, DISAGGREGATED BY CARICOM MEMBER STATES: 1989-1992 (In Thousands of Eastern Caribbean Dollars)

	1989			1990			1991			1992		
CARICOM COUNTRY	**Imports**	**Total exports**	**BALANCE OF TRADE**	**Imports**	**Total Exports**	**BALANCE OF TRADE**	**Imports**	**Total EXPORTS**	**BALANCE OF TRADE**	**Imports**	**TOTAL EXPORTS**	**BALANCE OF TRADE**
CARICOM	1252851	1271646		1350299	1376185		1305882	1235309		1363055	1249153	
MDC's	794307	1027560	233253	813195	1120862	307667	762183	998431	236248	772486	1011726	239240
Barbados	248700	167215	-81485	295551	178063	-117488	274730	182929	-91801	269338	176302	-93036
Guyana	99856	36490	-63366	66788	36519	-30269	85237	---	...	116821	---	---
Jamaica	245143	182256	-62887	236842	191735	45107	182470	170329	-12141	181759	162069	-19690
Suriname	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)
Trinidad and Tobago	200608	641599	440991	214014	714545	500531	219746	645173	425427	204568	673355	468787
LDC's	458544	244086	-214458	537104	255323	-281781	543699	236878	-306821	590569	237427	-353142
Belize	27571	23391	-4180	35072	23111	-11961	18594	19396	802	29159	16423	-12736
OECS	430973	220695	-210278	502032	232212	-269820	525105	217482	-307623	561410	221004	-340406
Antigua and Barbuda	75545	24124	-51219	92753	29508	-63245	72654	28723	-43931	92890	21115	-71775
Dominica	57134	35715	-21419	67749	37551	-30198	71006	38096	-32910	72319	42762	-29557
Grenada	61021	16481	-44540	69492	18712	-50780	74756	22409	-52347	78477	16734	-61743
Montserrat	14575	236	-14339	21229	1589	-19640	25722	1088	-24634	22140	2318	-19822
St. Kitts & Nevis	43057	6846	-36211	43020	9698	-33322	54192	9234	-44958	47589	8353	-39236
Saint Lucia	114731	62604	-52127	131527	58622	-72905	137623	50125	-87498	156025	42242	-113783
St. Vincent & The Grenadines	65112	74689	9577	76262	76532	270	89152	67807	-21345	91970	87480	-4490

TABLE 10 (cont'd):

	1993			1994			1995			1996		
CARICOM COUNTRY	IMPORTS	TOTAL EXPORTS	BALANCE OF TRADE	Imports	Total Exports	BALANCE OF TRADE	Imports	TOTAL EXPORTS	BALANCE OF TRADE	Imports	TOTAL Exports	BALANCE OF TRADE
CARICOM	1500994	1447568		1689726	1725442		1912428	2275837		1922439	2299518	
MDC's	892315	1224132	331817	1033695	1514933	481238	1353137	2061866	708729	1339179	2105326	766147
Barbados	292364	190716	-101648	319368	172709	-146659	333918	241366	-92552	335300	271627	-63673
Guyana	146612	---	---	172709	---	---	---	---	---	---	---	---
Jamaica	311617	161595	-150022	402607	156696	-245911	677276	159304	-517972	775833	143666	-632167
Suriname	(a)	(a)	(a)	(a)	(a)	(a)	131763	31516	-100247	---	---	---
Trinidad and Tobago	141722	871821	730099	164599	1185528	1020929	210180	1629680	1419500	228046	1690033	1461987
LDC's	608679	223436	-385243	656031	210509	-445522	559291	213971	-345320	583260	194192	-389068
Belize	29243	13100	-16143	30317	13508	-16809	34463	14794	-19669	28806	12714	-16092
OECS	579436	210336	-369100	625714	197001	-428713	524828	199177	-325651	554454	181478	-372976
Antigua and Barbuda	89844	11867	-77977	118117	9033	-109084	---	---	---	---	---	---
Dominica	64829	40327	-24502	76449	46996	-29453	85202	51496	-33706	86607	64505	-22102
Grenada	107247	18996	-88251	91646	16776	-74870	95341	18052	-77289	108301	15805	-92496
Montserrat	18304	2234	-16070	18602	1631	-16971	---	1896	---	---	2477	---
St. Kitts & Nevis	55652	8851	-46801	56067	7831	-48236	61618	5823	-55795	70440	2422	-68018
Saint Lucia	158359	56048	-102311	172481	39450	-133031	184213	46981	-137232	184809	28847	-155962
St. Vincent & The Grenadines	85201	72013	-13188	92352	75284	-17068	98454	74929	-23525	104297	67422	-36875

Table 11. Intra-Bloc Trade as a Percentage of their International Trade

	2003	2004	2005	2006	2007	2008
ASEAN						
Exports	**24.69**	**24.89**	**25.19**	**24.90**	**25.27**	**25.47**
Imports	**24.50**	**24.37**	**25.06**	**25.30**	**24.98**	**24.46**
EU27						
Exports	**68.77**	**68.49**	**67.78**	**68.30**	**68.14**	**67.37**
Imports	**67.09**	**66.84**	**65.23**	**64.86**	**64.93**	**63.52**
MERCOSUR						
Exports	**12.00**	**12.62**	**12.89**	**13.56**	**14.50**	**14.94**
Imports	**19.48**	**18.95**	**19.74**	**18.71**	**18.60**	**17.20**
NAFTA						
Exports	**55.90**	**56.01**	**55.87**	**54.15**	**51.63**	**49.77**
Imports	**37.18**	**35.68**	**34.68**	**34.06**	**33.92**	**33.24**
CARICOM						
Exports	**17.8**	**13.5**	**19.3**	**16.3**	**13.2**	**16.3**
Imports	**12.8**	**12.6**	**13.9**	**12.6**	**12.1**	**13.3**

Notes: Data for 2008 are provisional

Source: WTO; CARICOM Secretariat. This table was reproduced from the Caribbean Trade and Investment Report, 2010.

Table 12. CARICOM Petroleum Imports as Percentage of Total Intra-Regional Imports: 2004 2008

	2004	2005	2006	2007	2008
CARICOM	53.9	61.6	59.8	61.1	68.4
MDCs	59.8	67.6	61.1	66.6	73.4
Barbados	66.7	68.5	68.4	7.6	68.0
Guyana	55.2	69.9	69.9	62.0	65.1
Jamaica	65.3	72.9	67.8	80.5	84.0
Suriname	55.3	64.2	68.7	62.2	13.7
Trinidad and Tobago	15.5	20.6	26.0	24.1	19.2
LDCs	31.1	37.0	38.7	41.5	44.7
Belize	0.0	0.0	0.2	0.9	0.7
OECS	32.5	38.1	39.7	42.6	45.8
Antigua and Barbuda		50.4	50.2	6.4	
Dominica	36.0	40.9	46.3	50.7	45.5
Grenada	22.6	25.8	22.9	45.7	37.5
Montserrat	1.4	50.5	74.4	76.0	57.8
St. Kitts and Nevis	44.0	40.8	40.4	38.4	43.5
Saint Lucia	31.3	31.7	34.4	44.7	52.0
St. Vincent and the Grenadines	37.5	44.6	43.6	45.8	43.5

Source: CARICOM Secretariat.

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