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CARICOM

The Caribbean Community and Common Market (CARICOM) was launched in 1 August, 1973 as a development plan superseding the Caribbean Free Trade Association (CARIFTA). CARICOM integration, now being limited to a partial customs union, was initially expected to develop into a common market system. *(A free trade agreement eliminates barriers on goods exchanged among participating countries. In a customs union, members adopt a common external tariff (CET) and common trade policy toward third-party countries. A common market goes further, allowing for the free flow of all factors of production (capital and labour) among members).* CARICOM's strategy for the integration of all economic spaces rests heavily on the implementation of the Caribbean Single Market and Economy (CSME) that was formally established on January 1, 2006. CARICOM is a trade-reliant region with globalisation as a key factor in its development. Compromising to these changes through the CSME is CARICOM’s primary development challenge. To fulfill the CSME vision, member states have to adopt deeper commitments towards economic integration.

The Caribbean Basin has been a traditional pursuit of developed nations such as the United States and the success of CARICOM directly affects stability in the region. It therefore has important implications for global trade, investment, immigration, drug illegalisation, and national security policies.

Early Integration Efforts

CARICOM was established on July 5, 1973 with the signing of the Treaty of Chaguaramas. It was built on the trials and errors of previous unification efforts, beginning with the West Indies Federation (1958-62). Despite instigation by Great Britain, it dissolved rapidly when Jamaica and Trinidad and Tobago withdrew in favor of national self-determination. It took new form in 1965 with the Caribbean Free Trade Association (CARIFTA). It marked the beginning of a free trade area and was replaced five years later by a deeper commitment under CARICOM.

CARICOM began as two linked concepts: the Caribbean Community and the Common Market. Although conceptually conjugated, they were devised as separate legal and institutional entities that provided flexibility in accommodating differing preferences for regional integration. The Caribbean Community comprises multiple functional relationships and institutions designed to integrate the region politically, economically, and legally. CARICOM was not given supranational authority, which allowed for relative ease of approval. This arrangement did not lead to full regional integration. In the words of two Caribbean experts, *“CARICOM is a structure created by national governments to make national policies more effective by pursuing them within a regional framework.”*

The Common Market focused primarily on trade-investment integration. It proceeded from a free trade area to become a limited customs union, complete with a porous (multiple exceptions) common external tariff (CET). Although the “Common Market” did not evolve beyond a “loose trading regime,” CARICOM did succeed in integrating a diverse group of states. The smallest islands formed the Organization of Eastern Caribbean States (OECS) in 1981 to pursue a deeper integration pact to have a standing with the larger CARICOM countries.

In 2001, CARICOM formally adopted the CSME concept in the Revised Treaty of Chaguaramas (the Revised Treaty), effectively replacing the Common Market as the economic integration standard. Together, CARICOM and the CSME share the attainment of three fundamental goals: economic integration; coordination of foreign policies; and functional cooperation. Some of these goals, however, have found greater success than others, as CARICOM struggled to maintain its momentum.

Challenges to Integration

The 70s saw a period of oil price shocks, rising interest rates, and growing ideological radicalism in the Caribbean that lead to slow growth, rising debt, social unrest, and political division in the 80s. This discouraged integration. CARICOM remained tied to Europe through unilateral preferential trade arrangements and would take up, with some controversy, the conditional U.S. offer of unilateral trade preferences defined in the 1983 Caribbean Basin Initiative (CBI). These preferences enhanced selected trade opportunities, but were ultimately limited and proved to be poor foundations for diversifying economic activity, as had trade dependence in the colonial period. *“By the 1990s, the economies of Latin America and the Caribbean rebounded, but CARICOM actually began to experience declining growth in output and productivity in many cases, with collective GDP growth on average falling from 3.9% in the 1970s to 2.2% in the 1980s and 1.9% in the 1990s. In addition, by the turn of the 21st century, the World Trade Organization (WTO) pressed the European Union (EU) to eliminate their unilateral preferences accorded CARICOM exports (e.g., bananas and sugar), and the United States entered into a string of bilateral free trade agreements (FTAs) with Western Hemisphere countries that began to erode the relative benefits of the CBI preference programs. As the benefits of trade preferences continued their relative decline, the natural structure of CARICOM’s trade patterns began to shift (see next section), as did incentives to move beyond a customs union. As an inward looking strategy typical of 1970s integration efforts, CARICOM was constrained as a trade-related development strategy. Described by one Caribbean scholar as, “integrating, expanding, and protecting the regional market for goods,” CARICOM did not enhance intraregional trade to the degree expected. One study finds that from 1970 to 2003, although intraregional trade grew faster than extraregional trade, as a percentage of total trade, it peaked in 1998 (details are discussed in next section). Intraregional trade is also dominated by Trinidad and Tobago’s oil exports. Net of oil, which is not affected much by CARICOM’s preferences; intraregional exports have never exceeded 6% of total CARICOM trade.”* The trends suggest that CARICOM trade policies were limited in advancing intraregional integration.

Structural factors like the similarity in economies and high concentration of export products also limited the potential trade effects of CARICOM’s regional goods market . Future growth in trade, therefore, is expected to come from global exchange which requires careful management of small-state portability given CARICOM’s highly concentrated export base, which increases vulnerability to external shocks and unaccounted shifts in trade markets such as inflations.

It is also important to take note of the asymmetries in trade performance among countries, with Trinidad and Tobago and Barbados having the largest growth in exports, and smaller countries, many with diminished agricultural output and increased tourism, experiencing much smaller merchandise export growth. Jamaica has experienced a marked decline in its exports, while becoming the largest intra-CARICOM importer of goods, a trend largely attributed to its macroeconomic instability that, in particular, has hurt the manufacturing sector.

Although CARICOM did not induce a large real growth in intraregional trade, it succeeded in other ways. There have been significant gains to integration outside the trade area, including the benefits of shared institutional responsibilities in the provision of public goods and services. In addition, complementary structures of production have been important for efficiency gains, as well as early efforts to integrate labor and capital markets, which promote efficient allocation of factors of production, cost reduction, and improved competitiveness.

The OECS also offers valuable lessons. The fiscal and monetary discipline imposed by the monetary union is credited with maintaining macroeconomic policy discipline and points to one advantage of deeper economic integration. By contrast, the worse economic performance of the much larger states of Guyana and Jamaica is associated with considerable political and economic volatility and weak macroeconomic policies.

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