



A CARIBBEAN COMMUNITY FOR ALL

by

**PROFESSOR COMPTON BOURNE, PRESIDENT
CARIBBEAN DEVELOPMENT BANK
25 JUNE 2003, GRENADA**

**FIFTH LECTURE IN THE DISTINGUISHED LECTURE SERIES CELEBRATING
THE THIRTIETH ANNIVERSARY OF THE CARIBBEAN COMMUNITY**

A CARIBBEAN COMMUNITY FOR ALL

INTRODUCTORY REMARKS

I am extremely honoured by the invitation of His Excellency Mr. Edwin Carrington, the Secretary-General of the Caribbean Community, to deliver this Lecture in the series of Distinguished Lectures commemorating the 30th Anniversary of the Community.

I am grateful to the Government and people of Grenada, particularly Prime Minister, Dr. Keith Mitchell, for hosting the Lecture and for allowing me once more to avail myself of the warm hospitality and kindness of the Grenadian people.

I would also like to express my appreciation to Mrs. Marilynne Trotz for making the arrangements so smooth and efficient.

I take special delight in being able to speak here because it is in this country that the father of West Indian integration was born, raised and lived and from where much of what we now celebrate originated. I refer, of course, to the late, great T.A. Marryshow a man of his times and also a man fundamentally ahead of his time.

THE NATURE AND EVOLUTION OF CARIBBEAN COMMUNITY

This year, we in the Caribbean celebrate 30 years of sustained effort at constructing a Caribbean Community. The Treaty of Chaguaramas signed on 4th July 1973, by Barbados, Guyana, Jamaica and Trinidad and Tobago marked the formal establishment of the Caribbean Community as an institutional framework for economic integration, functional cooperation and coordination of foreign policy.

However, a community is not merely a set of institutional arrangements for trade, commerce, uniform policies and joint or coordinated actions. It is essentially about the linkages between people in a multiplicity of ways, at many levels and in varying degrees of intensity. A Caribbean Community comes into being through kinship, cultural affinities, interactions in the common Caribbean space for work and leisure, and in all those dimensions of human life that cause people to feel one and the same.

The Caribbean Community as we know it now is not stationary. It is evolutionary. It did not start in July 1973. Indeed, elements of a community were instilled as a consequence of homogenizing colonial presence in governance, notably the structures of political administration, geographical pooling of islands, *e.g.*, the Windward Islands Federation from 1833 to 1958 and the Leeward Islands Federation from 1971 to 1956, and the imposition of European colonial cultural norms and practices on indigenous populations, African slaves and Chinese and Indian indentured labourers. More important, one can date its origin with the call of the great Grenadian patriot, T.A. Marryshow and the Trinidadian A. Cipriani in 1932 for a Caribbean Federation. In September 1947, Grantley Adams of Barbados, Albert Gomes of Trinidad and Tobago, Norman Manley of Jamaica and John A. Renwick of Grenada advocated The Closer Association of the British West Indian Colonies. A vitally important step along the way to the Treaty of Chaguaramas was the establishment of the West Indies Federation by Antigua and Barbuda, Barbados, Dominica, Grenada, Jamaica, Montserrat, St.Kitts-Nevis-Anguilla, St. Lucia, St. Vincent and the Grenadines and Trinidad and Tobago in 1958. The dissolution of the Federation in 1962 was not a failure of the federal principle as commonly believed but instead is a demonstration that community political superstructures must reflect and be supported by the enabling foundations of economic relations, social cohesion and a deeply rooted sense of “togetherness”.

It is obvious that the set back of 1962 did not destroy the federal spirit among the political leaders of the time. In 1962 itself, Eric Williams proposed a Caribbean Economic Community.

In 1965, Antigua and Barbuda, Barbados, British Guiana and Trinidad and Tobago established the Caribbean Free Trade Association of which Dominica, Grenada, Jamaica, Montserrat, St. Kitts-Nevis-Anguilla, St. Lucia and St. Vincent and the Grenadines became members later that year and British Honduras in 1971. On 4th July 1973, Barbados, Guyana, Jamaica and Trinidad and Tobago signed the Treaty of Chaguaramas that established the Caribbean Community. By July 1974, they were joined by all other CARIFTA members and by The Bahamas in 1983.

The Caribbean Community is no longer linguistically homogeneous or culturally unified by British colonial heritage. The accession to membership by Suriname in July 1995 and Haiti in July 2002 are watershed events in the evolution of the Caribbean Community into a more inclusive community. They were foreshadowed by the West Indian Commission who in the Time For Action had this to say: “The vision of the future must be one of widening circles of integration starting with our circle of CARICOM kinship and broadening out to our extended Caribbean family (The) conception should be clear: The architecture must provide for all, and its integrity must not be compromised. None must be excluded *ab initio*.” Geographical, linguistic and cultural widening need not weaken the Community. It can strengthen it by enriching its history and perspectives on the future. It widens our lens to the world. It can move us closer to critical mass in global economics and international political relations. It can enlarge our sense of Caribbean Community.

ECONOMIC HETEROGENEITY AND SIMILARITY

The countries of the Caribbean Community are simultaneously quite heterogeneous and similar in economic characteristics and experiences. In 2000, per capita gross domestic product in purchasing power parity US dollars ranged from a low of \$1,467 to \$17,012. The top four countries, *viz.*, Antigua and Barbuda, The Bahamas, Barbados and St. Kitts-Nevis were between \$10,541 and \$17,012. The second five, *viz.*, Belize, Dominica, Grenada, St. Lucia and Trinidad and Tobago were between \$5,606 and \$8,963. The next four countries namely, Guyana, Jamaica,

St. Vincent and the Grenadines and Suriname were between \$3,639 and \$5,555. Haiti stood alone at \$1,467. It should be noted that per capita incomes within the Community are not closely correlated with natural resource endowments or country size.

Economic growth rates, although tending towards convergence, still exhibit considerable intra-Community variation. This is also the case for inflation rates. On the other hand, unemployment rates exhibit a high degree of similarity with no tendency over the 1990-1999 period to changes in the degree of convergence. Other instances of economic similarity are high ratios of trade tax revenues to gross domestic product (*i.e.*, acute dependence on trade taxes) and high ratios of foreign trade to gross domestic product (*i.e.*, acute foreign trade dependence).

The Caribbean Community is also quite diverse in terms of social indicators of quality of life such as number of physicians per unit of population, per capita health expenditures, infant mortality and live expectancy at birth.

Diversity does not invalidate the concept of community of nations for much the same reason as it does not invalidate the concept of family. Nonetheless, persistent wide and growing differences in economic situations and prospects could be a source of tension with ultimate disintegrative effects on the community. Members of a community need to have a sense of shared benefits from being members of the community. Although there may be unity in adversity, it is a sense of mutuality of gains that sustains community spirit. The Caribbean Community must be for the benefit of all.

INTRA-COMMUNITY TRADE

A great deal of unease about the Caribbean Community which occasionally surfaces is linked to intra-Community trade in particular to the judgement that opportunities for benefits are inequitably distributed, As noted by Loukas Tsoukalis in his book *The New European Economy*

Revisited (Oxford University Press, 1977): “A relatively equitable distribution of the gains and losses, or at least perception of such an equitable distribution, can be a determining factor for the continuation of the integration process.” It is important for the construction and maintenance of a strong Caribbean Community that we understand the issues well.

A consequence of the elimination of trade barriers among Community member countries is the displacement of higher cost domestic production by lower cost imports from partner countries. Consumers in the importing countries gain; producers lose. If a country is not cost-uncompetitive across all industries, then production losses in some sectors are compensated by gains in others. When there is inequality of resource endowments, including human resources among Community members, distribution of gains through trade will not be equal because differences in resource endowments will usually be mirrored by differences in competitive strength within the Community market. This inequality of outcomes is not to be confused with “unfairness”. What matters is whether there is meaningful opportunity for less well-endowed countries to export within Community markets and whether their export performance is enhanced by the existence of a Community market.

The Community market is quite important for several members, despite the predominance of extra-regional trade in their total trade. Exports to Community members comprise approximately 43% of total exports for Barbados, 31% for Trinidad and Tobago, 78% for Dominica, 25% for Grenada, 49% for St. Vincent and the Grenadines and 19% for St. Lucia. Trinidad and Tobago has become the dominant exporter with 75% of intra-Community exports in 1998; next is Barbados with 11% approximately. The main importers are Jamaica (40%), Barbados (21%), Trinidad and Tobago (14%) and St. Lucia (9%). Only Trinidad and Tobago has had persistently positive trade balances, *i.e.*, exporting by a wider margin more than it imports from Community members. Trinidad and Tobago’s trade surplus increased from US\$185 million in 1990 to US\$631 million in 1978.

Features of this comparative Community trade performance has attracted negative comment about the sharing of benefits. Several points have to be taken into consideration. First, countries have done better as exporters as a consequence of their membership in the Community. Exports to the Community as a percentage of total exports increased for 5 countries and remained stable for one other. Over the 1990 to 1999 period, Community exports increased relative to total exports in Barbados, Dominica, Trinidad and Tobago, St. Lucia and St. Vincent and the Grenadines. No trend is evident for Grenada, while there has a downward trend for Jamaica and St. Kitts-Nevis.

Second, several member countries have experienced growth in intra-Community exports. Barbados' exports increased from US\$66 million in 1990 to US\$110 million in 1998; Trinidad and Tobago from US\$264 million to US\$725 million; Belize from US\$8 million to US\$11 million; Dominica from US\$14 million to US\$36 million and Grenada from US\$7 million to US\$10 million. Third, while petroleum products predominate in Trinidad and Tobago's intra-Community exports and therefore in overall Community exports, most commodities in Community trade are manufactured goods based on imported raw materials and local labour (including managerial know-how) so that regional competitive advantage can be created by appropriate labour market policies, human resource development and investment in the physical and communications infrastructure. The conclusions to be drawn are that there is a sharing of the gains from trade although not as equally as might be desirable and that Community members can participate to a greater degree in intra-Community exports if they adopt economic strategies to improve their own production capacity.

LABOUR IN THE COMMUNITY

Geographical mobility of labour is a critical equalizing force in economic communities, whether those Communities are political federations or merely economic unions. What usually gets attention in the Caribbean Community is the temporary or permanent emigration of workers

from countries where production displacement has occurred to countries where export expansion has occurred. This facet should not be accorded that much attention for two reasons. First, unemployment in Community countries is not due substantially to intra-Community import competition. Instead, the principal influence is extra-Community export performance: the slump in tourism, problems in European banana markets, etc. Second, one should not treat intra-Caricom trade-induced contraction of economic activity as fixed reality instead of a situation amenable to economic correction. Deserving of greater attention is temporary or permanent immigration of skilled and expert personnel as a way of boosting the less well-endowed country's stock of human capital in order to build production capacity and improve intra-Community trade competitiveness and trade performance. Labour market integration of this kind does not displace local labour. It creates jobs at home for labour displaced as a consequence of the trends and patterns of Community trade and international trade.

Caribbean Community member countries have been too overwhelmed by the immediate pressures of domestic unemployment to see the potential dynamic benefits of labour market integration. Unemployment rates have ranged between 9% and 17% in recent years. In these situations, it is easy for governments to succumb to defensive labour market tactics such as more stringent work permit restrictions, rather than to address the challenges of improving labour productivity and labour force quality without which there is unlikely to be any sustainable job creation in an open competitive economy.

Labour market integration can also help to relieve production bottle necks due to unavailability of local labour at economically feasible wage rates. Within the Community, the construction sector and also agriculture have experienced labour constraints to expanded output with consequential inflation of output prices and production delays as in the case of the sugar industry. Relaxation of the labour constraint through realisation of a Community labour market would confer benefits of lower prices, shorter production runs, and larger output on both labour-sending countries and labour-receiving member countries. Of course, some countries have

received labour as “underground” workers *i.e.*, workers unrecognised by the authorities but having real presence in the work place. This is an economic injustice since it allows the host countries to benefit from imported labour services while denying the service providers the full due of their contribution to economic activity in those same host countries.

Throughout the Caribbean Community there are fears that unrestricted movement of Community residents would place severe burdens on social services beyond the capacity of Governments. It is difficult to give much credence to such fears because they ignore the fiscal contributions which such workers with proper legal migrant status will be required to make, and because arrangements for portability of pensions and social security benefits would reduce the dependence of new migrants on the accumulated monetary contributions of resident workers. Behind the seemingly intractable problem of restrictions on geographical mobility of labour in the Caribbean Community is refusal to accept the concept of a common economic space which must be the core of Community philosophy.

FINANCIAL CAPITAL IN THE COMMUNITY

Capital flows are another equalizing factor in geographically distributed economic communities. Through direct investment or through portfolio capital which is then converted into loans and equity investments, recipient countries may build productive capacity, enhance their physical and social infrastructure, and finance current economic activity to improve their current and future economic performance within the Community. The benefits to the sending countries are the income earned on financial capital and direct investment as well as the medium and long-term benefits to their own export sectors of having economically vibrant economic community partners. The CARICOM Secretariat’s Trade and Investment Report 2000 documents “the growing phenomenon of intra-Caribbean investment” in which 39 companies participated in cross-border operations in manufacturing, financial services, tourism and multiproduct business. While 16 out of the 39 companies are headquartered in Trinidad and

Tobago, the spread of Head Office location across the region is not inconsiderable : 10 in Barbados, six in Jamaica, four in Guyana, and one each in Antigua and Barbuda, St. Lucia and St. Vincent and the Grenadines. In 1997 and 1998, intra-Caricom investments in OECS countries totalled US\$138 million, a quite substantial sum. Investments in some other countries may well have been no less than this amount.

Given the potential contribution of Community-origin direct investment in member countries it should come as a surprise that attitudes in recipient countries seem less than welcoming. Foreign exchange controls, work permit regulations and the clamour of protective nationalism constitute formidable obstacles to the potential transborder investor in the Caribbean Community. There are provisions in the Revised Treaty of Chaguaramas intended to be facilitatory of cross-border investments. Specifically, Protocol II which deals with rights of establishment, the right to provide services and the right to move capital needs to be implemented if barriers to movement of labour and capital are not to frustrate cross-border investments.

The potential of portfolio capital flows for equalizing gains from economic integration should also not be underestimated. Several countries have fairly longstanding situations of excess liquidity in their financial systems co-existent with a shortage of investment opportunities. In others, the situation is opposite. Foreign exchange controls have served to rigidly segment financial markets into national enclaves thereby minimising the scope for productive employment of financial services in the Community as a whole, artificially depressing interest rates and frustrating competitive market pressures for improvement in the quality of financial services. One outcome is substantial variation across the Community in the quality of financial services, in the cost of capital and in returns to savings. It should not be thought that cross-border mergers and acquisitions in the financial sector will significantly reduce these variations. Cross-border firms would be free to integrate operating systems with

some efficiency gains to customers but would still be constrained by national foreign exchange controls and regionally uncoordinated monetary policies.

The retention of foreign exchange controls within the Caribbean Community has been advocated on two grounds: domestic interest rate insulation and avoidance of capital flight. On the first, it is true that equilibrating market forces will drive up interest rates in the low interest rate economies and drive down interest rates in the high interest rate economies if portfolio capital is geographically mobile. In other words, there will be market convergence of interest rates which is not a bad tendency if one subscribes to the Community goal of a common financial space. Foreign exchange controls on the other hand institutionalise interest rate divergence, thereby effectively maintaining segmented financial markets. On the second count, the belief is that capital will move from the capital controls, fixed exchange rate jurisdiction to the no capital controls, flexible exchange rate jurisdictions en route to extra-regional financial markets. Caribbean reality has been somewhat at variance with this presumption. Foreign exchange controls in current fixed exchange rate jurisdiction have been wholly ineffective in stopping overseas portfolio investments by Caribbean residents as official data for the US readily show. What causes extra-regional capital outflows is not the absence of foreign exchange controls but the desire on the part of financial investors for economic and political risk management through portfolio diversification and the quest for higher rates of return than are possible in constricted domestic financial markets. Paradoxically, the widening of financial options and the availability of a more attractive portfolio of financial instruments through financial market integration are more likely to mitigate capital outflows than would foreign exchange controls on intra-Community flows.

NON MARKET FACTORS

The focus thus far has been on market forces. However, market forces by themselves are insufficient for building sustainable economic communities. Federal nations such as the USA

and Canada have built-in provisions for offsetting tendencies for economic polarization and uneven regional development. The European Union is constitutionally required to adopt policies for economic and social cohesion.

McIntyre in 1965, Demas in 1967 and Brewster and Thomas in the same year provide early Caribbean recognition of the need for explicit redistributive policies or policies for promoting equal gains in Caribbean economic integration. Brewster and Thomas' proposals for regional industrial planning and complementarity attracted attention among intellectuals but not among policymakers. Like McIntyre, Demas proposed the promotion of exports of agricultural products from the CARICOM LDCs and further proposed their regional specialization in domestic food production. A modernized version of the McIntyre/Demas proposals in which the Windwards, Belize and Guyana are promoted as the principal exporters in intra-Caribbean agricultural trade may be worth close examination.

Demas and others had also urged the deliberate creation of poles of growth in CARICOM LDCs. Tourism has emerged as one such pole of growth but its emergence could not seriously be attributed to regional industrial location policy. As the OECS economies struggle now to adjust to damaging structural shifts in extra-regional markets for their agricultural exports, the need to identify additional growth poles has become urgent.

Special institutional arrangements and policies for redistributive or cohesion-creating movements of capital have also been long recognised in Caribbean economic integration. The Caribbean Development Bank's (CDB) Charter requires it to pay special regard to the needs of its CARICOM LDCs. Furthermore, for many years the Bank adopted a policy of favouring the LDCs in terms of the proportion of its financial resources made available to them. Even now, the Bank's soft funds are channelled principally to CARICOM LDCs as initially classified. Cumulative distribution of loans, equity and grants for the period 1970-2002 tell part of the story. Thirty-eight per cent of approvals were for OECS countries and 8.8% for Belize

compared with 15.8% for Jamaica, 9.9% for Barbados and 6.1% for Trinidad and Tobago. CDB's role has been one of intermediating international capital rather than regional capital.

The revised Treaty of Chaguaramas provides for the creation of another institutional mechanism for financing cohesion within the Community. Protocol II envisages a Development Fund which can be used to provide financial capital to countries disadvantaged by accession to the CARICOM Single Market and Economy. Details are still to be worked out and the EU experience with its Structural Funds and its Cohesion Fund may be useful. The EU's reformed Structural Fund sets among its priority objectives the development of regions that are lagging in levels of economic development; conversion of areas of industrial decline; offsetting (reversing) longterm unemployment; youth unemployment; adjustment of agricultural structures; and rural development. Structural funds are additional to national expenditures within these categories. In the EU, a lagging region is one whose per capita income is less than 75% of the Community average. There are two points of immediate difficulty with the EU model. First, the use of a per capita criterion would effectively exclude the structurally disadvantaged CARICOM LDCs or if set at a level which includes them would be so all-inclusive that it becomes unworkable. Second, the EU's Structural Fund and the Cohesion Fund are financed out of the EU's own fiscal resources garnered from trade taxes and a share of national VAT revenues. It cannot be presumed that Caribbean Community members have either the fiscal capacity or the will to make similar commitments to financing Community redistributive policies.

CONCLUDING REMARKS

A Caribbean Community For All may be interpreted to mean a community that extends beyond its present core of Anglophone Caribbean countries to include the other linguistic countries within the Caribbean Basin. Geographical and cultural inclusivity along these lines may not be a very distant objective in light of regionalization trends in the world and the need

for small Caribbean countries to achieve diversity and economic strength through association and integration with other countries. It would be unwise, however, for the Anglophone Caribbean to approach the objective of widening the Community with its traditional underpreparedness.

No less important than geographical inclusion is the meaning of *A Caribbean Community For All* which has infused most of this Lecture, i.e., the creation of an economic community in which residents of the Caribbean occupy a genuinely common economic space and perceive of themselves as having a common economic destiny. It is evident that the Caribbean Community is not fully there as yet and that the edifice and interior of a Caribbean Community are still under construction. In all areas of Community life, there is much more to be done, especially with a view to ensuring mutuality of gains. There is no doubt, however, that our political leaders and our people aspire to the existence of a fully fledged Caribbean Community. We have travelled a difficult road in the thirty years and have achieved much of which all Caribbean people can be proud. Let us now travel faster, with more surety, towards *A Caribbean Community For All*.