MARKET, STATE, AND CARIBBEAN INTEGRATION:

Towards a New Paradigm

- by -

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EXECUTIVE SUMMARY

NEED FOR A NEW PARADIGM OF PRODUCTION INTEGRATION

1. This Report advocates the adoption of a new paradigm of production integration within Caricom: one that is driven by the private sector, facilitated by governments, and motivated by the strategic objective of achieving **structural diversification** with **competitive efficiency** for the Community and its member states.

2. The paradigm of production integration underlying the Treaty of Chaguaramas was essentially inward-looking, resource-based, and state-directed. Attempts to promote production integration along these lines have had poor results. Moreover, the policy environment in Caricom has shifted decisively towards economic liberalization and outward-looking development strategies. These indicate the need for a new paradigm of production integration that responds to the circumstances of the 1990s and beyond.

3. The strategic imperative of achieving structural diversification with competitive efficiency results both from internal policy shifts and from major changes in the external trading environment. Specific challenges emanate from the erosion of preferential trading arrangements under the CBI, Caribcan and Lome schemes as a result of NAFTA and GATT; and from import liberalization and the reduction of the Caricom Common External Tariff. Hence the new role of production integration should be to help **to provide the key elements of international competitiveness at the firm, industry, national and regional levels required to identify and successfully exploit existing and new market opportunities.**

4. Accordingly, the meaning of production integration must now be the **combination of factors of production across the region for competitive production** in existing and new activities, whether for export or regional consumption.

5. Production integration will need to be accomplished primarily by reliance on the **market mechanism**, with **selective government intervention.**

6. The **private sector** will play the main role in the implementation of production integration. This will be by means of cross-border investment, joint ventures, complementary production, and functional cooperation in external marketing and technology.

7. **Governments have a critical supporting role** to play in stimulating, and facilitating, private sector organised production

integration. This is by means of establishing the framework, indicating the areas, and providing effective supporting measures.

8. An adequate framework for production integration in Caricom requires four critical elements:

(i) early establishment of **full mobility of factors of production** within the Community within the context of the Caricom Single Market and Economy (CSME);

(ii) establishment within each member state, with policy harmonisation across the Community as a whole, of a macro-economic environment characterised by **low inflation, competitive and stable exchange rates, and low long-term interest rates;**

(iii) provision of an **adequate physical infrastructure** for intra-regional trade and investment; and

(iv) implementation of a **Common Industrial Policy (CIP).**

9. Priority action in the establishment of the Caricom Single Market and Economy (CSME) should be aimed at securing the **free movement of capital, skilled manpower, and entrepreneurship** throughout the region. The harmonisation of fiscal, monetary and trade policy, should be the subject of phased implementation, with a set time-table.

10. Governments will have to ensure the provision of **adequate maritime transport**, and **improvements in air transport**, as elements in the framework of production integration.

11. Both the private sector and governments can make better use of new **information technologies** in improving the speed and reducing the cost of intra-regional and extra-regional communication. For this purpose, **reliable and low-cost telecommunications** is a vital necessity.

12. A **Common Industrial Policy (CIP)** will be required to complement the market mechanism to stimulate private sector organised production integration in selected areas. The main instruments available, given current policy regimes and multilateral conditionalities, are

(i) support for export promotion and external marketing,
(ii) fiscal incentives,
(iii) subsidised credit (subject to conditionalities),
(iv) subsidised training, and
(v) support for R&D.

13. The CIP will replace the Caricom Industrial Programming Scheme (CIPS). CIP will be formulated and implemented with the use of clearly articulated and agreed criteria, and by means of close consultation and dialogue with the private sector.

14. Sectors where production integration is feasible cannot be determined solely through technical criteria or by means of industrial programming by governmental technical agencies. They will result from the process of formulating and implementing the CIP through government-private sector consultation. They will also become evident as a result of private sector activity operating in the context of the framework of the CSME, improved infrastructure, and a stable and appropriate macroeconomic environment.

15. Notwithstanding the above, the following sectors and activities where there appears to be scope for production integration were reviewed:

(i) traditional agriculture
(ii) non-traditional agriculture
(iii) agro-industry
(iv) furniture, wood products and forestry
(v) tourism
(vi) finance,
(vii) ancillary services:
- Public sector S&T and R&D bodies
- Private engineering and management consultancy firms
- Export promotion services
- Export marketing, sales and distribution services

1. TOWARDS A NEW PARADIGM OF PRODUCTION INTEGRATION

1.1 Production integration and Caribbean Economic Integration

In the context of Caribbean economic integration, the term "production integration" has implied the combination of natural resources and capital across the region in vertically-integrated, resource-based production for the satisfaction of demand in an integrated regional market, and/or for export production. The term probably owes its origin to Brewster and Thomas' study of **The Dynamics of West Indian Economic Integration** (1967), when they argued that:

> ....integration in the West Indies should not be limited to those conditions which govern the exchange of goods, but should also include in its perspective the **integrated production of goods**... it is through the integration of production that the most important economic gains are to be achieved in the West Indies. (pp. 19, 24, emphasis added).

This strategy represented a development of earlier ideas of "resource combination" (McIntyre, 1964) and "structural transformation" (Demas, 1965). McIntyre had proposed a strategy by which Caribbean countries could combine their natural resources to develop new export activities (eg aluminium smelting) and lessen their dependence on traditional agricultural exports. Demas had emphasised the crucial role of inter-industry linkages in achieving economic transformation and self-sustaining growth. Regional integration was proposed as a means of overcoming the constraints that small domestic markets and limited resource endowments impose on the ability of small countries to achieve structural transformation.

Brewster and Thomas identified several possible resource-based industrial complexes for production integration in the region, such as cattle and meat processing, leather and footwear, iron and steel, and industrial chemicals. Similar ideas were present in the proposals for the regional integration of the Caribbean bauxite industry (Girvan 1967), and for functional cooperation in the production and marketing of agricultural exports (Beckford 1967), and in air transport (DeCastro 1967).

The context of this paradigm of production integration was the strategy of national import-substituting industrialization (ISI) pursued by Caricom MDCs in the 1950s and 1960s. ISI had encountered the acute constraints of (i) small market size, which limited its expansion capacity, and (ii) heavy dependence on imported inputs, which limited local value added and employment generation. Market integration within Caricom would address the first constraint, whilst production integration based on indigenous resources would address the second.

This paradigm of production integration found its expression in several provisions of the Treaty of Chaguaramas. Among the principal objectives of the Treaty was the "continuing integration of economic activities" (Article 4). Provision was made for regional industrial programming (Article 46), for the joint development of natural resources (Article 47), and for the rationalisation and integration of agricultural development (Article 49). Initiatives under these provisions of the Treaty, which are reviewed in Section 2, have generally included a large element of government sponsorship and/or ownership.

1.2 The need for a new paradigm of production integration

Twenty years after the formation of the Caribbean Community, there is a compelling need for a fundamental reappraisal of the paradigm of production integration which informs the Treaty of Chaguaramas and the initiatives taken under it. First, the record of the last twenty years shows that very little production integration has in fact taken place. Government-sponsored production integration projects have either had disappointing results or failed to be implemented at all (Section 2). Private sector organised production integration has also been insignificant (Section 3).

Second, radical changes in the policy environment in Caricom make it unlikely that the type of production integration envisaged by the Treaty can be pursued. To all intents and purposes, import-substituting industrialization has been abandoned as a development strategy. The role of the state in the economy has also diminished sharply. Outward-looking, private-sector led growth has largely been adopted as the development strategy that informs national policies and decisions at the Caricom level. A critical turning point was the decision in October 1992 to sharply reduce the level of the Caricom Common External Tariff (CET).

Third, major changes in the world trading environment will expose Caribbean producers to much greater international competition than in the past. Developments with the European Single Market and European Union have put the banana import regime under severe pressure from Latin American producers; and the preferences now enjoyed for ACP exports on the European market may not survive beyond the end of the decade. NAFTA has come into force, and will erode or entirely eliminate the advantages available under the CBI and Caribcan arrangements. This immediate impact is likely to be felt by the apparel export industries of the region. The longer term implication is that Caribbean exports to the U.S.A and Canada will have to be competitive with Mexican production, and with production from other Latin American countries as NAFTA enlarges. Conclusion of the GATT Uruguay Round of trade negotiations will reduce the advantages available to developing countries as a whole under the Generalised System of Preferences. These changes occur at a time when there is a decisive shift in the composition of international trade away from resource-intensive primary products, the traditional exports of Caricom members states.

Extension of the GATT provisions to trade in services and intellectual property will also expose local firms to new sources of competition on their home markets. Together with the sharp reduction in protection for domestically produced goods and services resulting from Structural Adjustment Programmes, these developments signal the necessity for Caricom economies to brace themselves for the onslaught of international competition, both in foreign and domestic markets.

International competitiveness is therefore the single most important strategic imperative of economic policy for Caricom at this time and into the foreseeable future. This imperative applies to export production and production for the local and regional markets, to government and to the private sector, and to individual member states as well as to Caricom as a whole. If "Production integration" is to remain relevant as a concept and useful as a strategy, then its content will need to be reformulated to reflect this new imperative.

It is the contention of this Report that the new paradigm of production integration should be informed by the strategic objective of attaining **structural diversification** with **competitive efficiency** for Caricom. For this purpose, it is useful to consider the main challenges facing Caricom economies arising out of the dynamics of world trade and the main elements of what is being called the "new paradigm" of international competition.

1.3 Structural diversification with competitive efficiency: the new imperative

In the past, the external market position of the principal exports of Caricom member states has tended to rely on one, or a combination of, three principal factors: (i) preferential market access, (ii) resource intensity, and (iii) low labour cost. These factors are rapidly losing their significance in guaranteeing market share and sales growth. The point has already been made with respect to preferential market access. More broadly, a recent article by Carl Dahlman of the World Bank has drawn attention to major changes in the structure of world merchandise trade and in the elements of international competition since the 1960s:

- from 1965 to 1990, the share of primary commodities in world merchandise exports fell by 22 percentage points, offset by an equal increase in the share of manufactures;

- for developing countries, the shift from primary commodities to manufactures was of the order of 50 percentage points;

- within world manufactured exports, there was a pronounced shift from resource-intensive goods in favour of **scale-intensive, differentiated and science-based goods**, the share of labour-intensive goods staying about the same;

- for developing countries, the shift from resource-intensive goods was even more pronounced (from 76.5 percent to 25.7 percent of their manufactured exports); one-third of this was in favour of labour-intensive goods and the remainder to scale-intensive, differentiated and science-based goods;

- the most rapid growth in the manufactured exports of developing countries has been in **differentiated** and **science-based** goods, whose combined share grew up from 3-4 percent of manufactured exports in 1965 to 27 percent in 1990.

Dahlman relates these shifts to the emergence of "new elements of international competition", which are summarised as follows:

<u>I. At the level of the **firm** and **industry**</u>:
- quality of product
- short delivery times
- after sales service
- responsiveness to customer's needs
- innovativeness in product design
- product differentiation
- aggressive marketing
- efficient distribution networks

II. At the level of the **industry** and **economy**:

- efficiency of supporting firms providing inputs and services
- physical infrastructure: adequate and efficient transport and communications
- human infrastructure: adequate and skilled human resources
- institutional infrastructure: legal, financial, export support, technology support
- macroeconomic environment: appropriate exchange rate, favourable interest rates, low inflation.

This analysis is not to suggest that price competitiveness is unimportant; rather it points to the growing importance of non-price factors, which can be decisive in particular products and markets. Other studies have concluded that price competitiveness per se is not a major explanatory variable for export performance in developing countries (Adams, Behrman and Bodlin, 1989, 14). Experience from Caricom countries also shows that non-price factors are a major constraint on the expansion of non-traditional exports. Problems include poor and inconsistent product quality, unreliability of supply, inability to schedule production to meet orders, and inadequate knowledge of product characteristics desired by the market.

Although the above analysis is limited to merchandise trade, the same kinds of factors affect competitiveness in services such as tourism, which has grown rapidly in the recent past and is now the single largest foreign exchange earner in the region. Recent trends in the form of the growing importance of "all-inclusives" and "eco-tourism" indicate that market segmentation and product quality competition can be as much as feature of this industry as it is in manufacturing.

The analysis is suggestive of the kind of strategy that Caricom economies will need to pursue in restructuring to meet international competition. While not abandoning existing market positions in resource-based and labour-intensive exports, the region should be assessing opportunities in the international markets for scale- intensive, differentiated and science-based products; targeting specific goods and services where it is believed that competitive advantages in specific markets can be developed.

Differentiated products may be the logical group on which to concentrate initial attention, given the constraints of size and resources. Moreover, differentiated products may also be capable of being developed out of existing resource-based production (eg agro-industry, horticulture, furniture). However, this is not to advocate ignoring the possibilities of developing competitive advantages in particular scale-intensive and science-based products where opportunities may exist. The question of strategy is more one of emphasis, mix and timing than of all-or-nothing choices.

These considerations suggest that the attainment of increasing **structural diversification** with **competitive efficiency** should be the strategic objective of Caricom economies in a ten to twenty year perspective. Production integration within the region will derive its value and relevance only to the extent that it can, and does, make a contribution to the attainment of this strategic objective. Specifically, we suggest that production integration should be put in the context of the development or provision of the key elements of international competitiveness at the firm, industry, national and regional levels which are required to identify and successfully exploit existing and new market opportunities.

With this in mind, the remainder of this Report is organised in the following way. Section 2 discusses the rationale, approaches and institutional forms of production integration within a Caricom perspective. Section 3 discusses the private sector and production integration in Caricom, utilizing the results of a survey of firms engaged in intra-Caricom direct investment. Section 4 reviews the experience of the European Community with production integration to derive lessons for Caricom.

The main recommendations of the Report are contained in Section 5, on the framework of production integration with supporting measures; and Section 6, on areas of production integration with supporting measures.

2. RATIONALE, APPROACHES AND FORMS OF PRODUCTION INTEGRATION: THE CARICOM EXPERIENCE

2.1 Rationale of Production Integration

There are several senses in which the term production integration can be used. Frequently, it refers to formal arrangements linking production in different countries, such as what occurs within transnational corporations (TNCs), or under industrial complementation agreements between independent enterprises. In a more general sense, production integration can be said to occur whenever there are production activities in two or more countries utilizing cross-border movements in factors of production (entrepreneurship, capital, labour) and/or producer's goods and services (raw materials, intermediate goods, capital goods, engineering and other services). Production is "integrated" in that the process of producing a specific good or service occurs in, and draws inputs from, two or more countries.

Theoretically, the gains from production integration are a subset of the broader class of gains from international trade and international factor movements. They arise out of increased production specialization among countries, which result in improvements in static allocative efficiency and higher real income. Economic integration schemes seek to realize such gains for the participating countries by stimulating increased intra-area trade and factor movements. To the extent that such movements take place, it is almost axiomatic that production integration of some kind is occurring within the area.

There is, therefore, nothing inherent in the concept of "production integration" which limits its applicability to a strategy of inward-looking, resource-based, state-sponsored development. In its more general formulation, production integration is one aspect of the process by which international movements in goods, services and factors of production lead to improved productive efficiency. The production in question can be local resource based or import-based, or both. It can be oriented to the local, regional or export market, or all three. The gains from production integration are rooted in neo-classical integration theory, which saw these gains as being achieved through the operation of the market mechanism. Hence, production integration is as valid to a strategy of outward-looking, market-oriented development as it is to any other strategy.

2.2 "Market-led" and "state-sponsored" production integration

Integration schemes in developed countries aim to realize the benefits of production integration principally through market integration. The emphasis is on the elimination of barriers to the free movement of goods, services, and factors of production among the member countries. Ultimately, efficiency gains are maximized when the entire area functions as a single market and economy. This is the rationale for complementing market integration with policy coordination, institutional harmonization, and monetary union - the aim of the European Community. In this context production integration will essentially be market-led, and is associated principally with improvements in allocative efficiency.

Integration schemes among developing countries have tended to place less reliance on gains in allocative efficiency through the operation of the market mechanism. Economic integration has been seen as a means of accelerating development by means of promoting or stimulating resource mobilization and other dynamic developmental effects. Major objectives of such schemes have been:

(i) the utilization of previously unemployed resources, such as labour, land, and mineral deposits;

(ii) the generation of externalities which are internalized within the region by means of production linkages;

(iii) widening and deepening industrialization;

(iv) increasing the value added on, and the competitiveness of, export production;

(v) strengthening bargaining power in external markets;

(vi) in general, reducing the external vulnerability and enhancing the capacity for self-sustaining growth of the participating economies.

To attain such objectives, developing country integration schemes have tended to place considerable reliance on government initiative. One reason for this is the well-known difficulties of such schemes in making progress towards the consolidation of a single market and economy. This is attributable to several factors. The economies of member countries are often competitive with one another, rather than complementary. This gives rise to strong domestic interests which oppose market integration. Foreign exchange problems frequently give rise to import restrictions which impact on intra-regional trade. Economic and political instability lead to abrupt policy changes which disrupt the momentum of the integration process.

Policy-makers in developing countries have also taken the view that market integration by itself will not provide an effective stimulus to resource mobilization, increased intra-regional trade and production specialization because of the inadequacy of the price mechanism. This is associated with the divergence of money costs from social opportunity costs due to high unemployment, and with the existence of external economies and dis-economies, economies of scale, infant industries, and fiscally induced price or cost distortions.

For these reasons, developing country integration schemes have often provided for special measures involving an active government role. Governments have promoted projects of resource combination, industrial complementarity, and production specialization in industrial and agricultural activities. For convenience, we will refer to this approach as **"state-sponsored** production integration", to distinguish it from the approach of **"market-led** production integration". (State-sponsored production integration should not be confused with **"planned** production integration", effected through a regime of coordinated central planning and detailed trade agreements, as used to be the case between the former Soviet Union and its Eastern European partners in the Council for Mutual Economic Assistance (CMEA)).

2.3 Regional Industrial Programming

State-sponsored production integration usually includes a large element of regional industrial programming. This involves

(i) government determination of the pattern and scope for production specialization within the area by the conduct of feasibility studies, social cost-benefit analysis, etc.; and

(ii) implementation of the desired changes in the production structure by a variety of instruments, including tariffs, fiscal incentives, administrative controls, and investments by state enterprises.

The programming may apply to existing production or to new investments. In the first case, the aim is to promote industrial complementarity among existing plants in specific industries in order to realize economies of scale and utilize excess capacity. An example is the negotiation of complementary agreements within the Latin American Free Trade Area (LAFTA). These have been found to be administratively and operationally complex, and costly in terms of time and human resources spent on inter-governmental and inter-firm negotiations. They have proven practicable only in narrowly defined sectors where reallocation of production can take place without adversely affecting the position of particular enterprises.

In the second case, inter-governmental agreements are negotiated which allocate investments in new plants or industries to particular countries. These are implemented by means of tariff or administrative measures. This approach has been used in the East African Community, the Andean Pact, the Central American Common Market (CACM), and the Association of South-East Asian Nations (ASEAN). In Caricom, it is represented by the Caribbean Industrial Programming Scheme (CIPS), and the industrial allocation scheme, which are briefly reviewed below.

2.3.1 The Caricom Industrial Programming Scheme (CIPS) and the Industrial Allocation Scheme

CIPS derives its mandate from Article 46 of the Treaty of Chaguaramas, which calls for:

1. Member States undertake to promote a process of industrial development through industrial programming aimed at achieving the following objectives:

(a) the greater utilization of the raw materials of the Common Market;

(b) the creation of production linkages both within and between the national economies of the Common Market;

(c) to minimize product differentiation and achieve economies of large scale production, consistent with the limitations of market size;

(d) the encouragement of greater efficiency in industrial production;

(e) the promotion of exports to markets both within and outside the Common Market;

(f) an equitable distribution of the benefits of industrialization paying particular attention to the need to locate more industries in the Less Developed Countries.

2. The Council may make recommendations from time to time to promote achievement of the objectives stated in paragraph 1 of this Article.

Under the aegis of the CIPS unit at the Caricom Secretariat, techno-economic feasibility studies were undertaken on the utilization of raw materials within member states. Possibilities were identified in the following product groups:

(i) wood-based products: plywood, veneer, prefabricated houses, sashes and doors

(ii) clay-based ceramic products

(iii) fish processing

(iv) agro-processing

(v) chemical lime and chemical pulp

(vi) cotton textiles and textile products

(vii) leather products

(viii) plastic products

(ix) agricultural hand tools and other steel-based products

(x) sugar-based products

(xi) petroleum-based products.

The above list of activities was approved as eligible for integrated production by the Heads of Government Conference of 1986. However, no regionally integrated industries have materialized in any of the above, although national industries do exist in some.

Under the Caricom Industrial Allocation Scheme an attempt was made to allocate certain light manufacturing industries to the LDCs. However, this scheme has not had any significant results, as member states have been reluctant to accept any restriction on their ability to establish industries in their home territory.

2.3.2 Caricom cooperation in agricultural development

Agriculture is another sector in which Caricom has attempted a measure of programmed development. Article 49 of the Treaty of Chaguaramas deals with Rationalization of Agricultural Production, and commits the member states to adopt a scheme with the following objectives:

(i) the development of a regional plan for the integration of agricultural development in the Common Market;

(ii) the achievement of the optimum utilization of agricultural resources; and

(iii) the improvement of the efficiency of agricultural production in order to increase the supply of agricultural products for

(a) domestic consumption,

(b) exports to regional and extra-regional markets, and

(c) inputs for agro-based industries.

The Caribbean Community Programme for Agricultural Development (CCPAD) was developed under this clause of the Treaty by the Caricom Secretariat. This was based on pre-feasibility and feasibility studies of a number of products. Those identified for expanded production to meet regional demand include grains, legumes, fruits and vegetables, spices and essential oils, livestock and livestock products, fish and fish products, and oils and fats. However, little progress on the implementation of the CCPAD programme has been recorded.

Given Caricom's poor results in attempting state-sponsored production integration in industry and agriculture, as well as the policy shift towards market-oriented growth, greater emphasis on market-led production integration would be appropriate. However, many of the imperfections in the operation of the price mechanism which gave rise to government intervention in the past, continue to exist. This would argue for a blend of market-led and state-sponsored approaches to production integration. Government should concentrate on providing supports and incentives for selected targeted activities, as well as an efficient infrastructure and an appropriate macroeconomic environment, while the private sector is encouraged to directly organize and operate the selected activities.

2.4 Types of production integration arrangements

In reviewing the various institutional forms of production integration, it is useful to bear in mind the distinction between the following kinds of arrangements:

(i) **integrated production**, i.e. the direct organization of production in two or more countries by a single enterprise;

(ii) **complementary production**, i.e. agreement among separate and independent enterprises operating in two or more countries to produce and use related inputs among themselves; and

(iii) **functional cooperation**, i.e. agreement among enterprises to cooperate in a specific area or areas, such as purchasing, marketing, and technology. This may not fall strictly within the definition of "production integration", but may be included for the present purposes.

2.5 Institutional forms of production integration

A wide variety of institutional forms of production integration can be identified, with varying degrees of state and private sector involvement and providing for different types of integration.

2.5.1 Transnational Corporations (TNCs)

TNCs are firms which directly undertake production in several countries, operating through branches, subsidiaries and affiliates which they majority or wholly own, and control. Similar kinds of activities may be undertaken in several countries (horizontal integration), or successive stages of production may be undertaken in different countries with the output of one operation becoming an input into another (vertical integration).

The archetypical TNC is a privately-owned firm based in a developed industrial country, usually the U.S.A., Canada, the E.C., or Japan. In the resource-based industries of Caricom such as sugar, bananas, bauxite, and petroleum, they have tended to link production of resource products in the region with processing and marketing facilities in the developed countries under international vertical integration. Similarly, in the manufacturing sector TNCs have tended to import intermediate inputs from affiliated plants in extra-regional sources. For these reasons, TNCs have often been regarded as contributing to disintegration and fragmentation of regional economies rather than being a force for intra-regional production integration.

2.5.2 Regional enterprises

This term will be used to refer to firms owned and controlled by nationals of the integration area which operate in two more countries of the area. They satisfy the formal definition of TNCs but because they are regionally owned, and operate, at least initially, with a regional perspective, it is believed that such enterprises will behave in a more "regional" manner than TNCs. They should be more likely to utilize their firm-specific competitive advantages (management, technology, marketing) across the region as a whole, to combine production across the region, and to engage in extra-regional exporting.

With these attributes in mind the Caricom Secretariat developed a scheme for the Caricom Enterprise Regime (CER). This provides for the establishment of specially organized regional companies to undertake production integration activities related to agricultural, industrial and mineral development. Firms designated as CEs would be entitled to receive special treatment in the form of access to credit in the host country, permission to remit dividends and capital, protection against imports through quantitative restrictions, and fiscal incentives (which are limited to agriculture, tourism and forestry only).

Agreement on the establishment of the CER was first reached by the Standing Committee of Caricom Finance Ministers in 1976. After fifteen years and several revisions, the agreement had been signed by all member states, with enabling legislation passed by five. To date, no firms have been registered under the CER. A survey of firms undertaking cross-border investment in Caricom revealed widespread ignorance of the existence of the CER or of its provisions, within the private sector (Section 3).

In principle, regional enterprises should be regarded as one of the principal vehicles for production integration in the future, and policy should be geared at encouraging their emergence, consolidation, and expansion. A prominent example is the case of a St. Vincent-based firm which has made substantial investments in rice production in Guyana to ensure quality supplies of rice for its rice milling, par-boiling and packaging facilities in St. Vincent. A survey undertaken for this Report also found several instances of cross-border investment within Caricom by locally-owned firms in manufacturing and services (see Section 3).

However, the slow pace of implementation of the CER and the apparent ignorance and indifference of the private sector to it, indicates that much more effective measures will need to be found to encourage this kind of development.

2.5.3 Private sector joint ventures

Joint ventures formed among private enterprises (PJVs) operating in two or more countries in the integration area represent an alternative to the formation of a regional enterprise for the organization of production integration. They will be appropriate when none of the participating firms have the size or strength to directly engage in cross-border investment and production, but where each brings specific assets (knowledge of the local market, access to local resources, etc.) which complement those of the others. For this to work, there must be a sufficient coincidence of the interests and objectives of each partner, a clear specification of the distribution of responsibilities and benefits, and a strong commitment by each partner to the success of the operation.

The PJV may include an extra-regional partner, which may have the advantage of providing access to finance, technology, and market access. An extra-regional partner, however, may not have the same level of commitment to the regional economy as the local partners.

2.5.4 Government joint ventures

GJVs are enterprises owned by two or more governments, often formed for the express purpose of promoting production integration by undertaking regional industrial projects. For example, the ASEAN grouping negotiated several "Package Deals" by which certain large industrial projects would be jointly developed and allocated to different member countries. Member countries were to create the conditions to enable the industries to serve the regional market, utilizing measures such as one-way trade liberalization, tariffs and import controls. In spite of detailed feasibility studies, most of these projects were either scrapped or were eventually established only as national projects. A major problem was that the location of industries became the subject of political negotiation among governments, rather than of economic considerations.

There have also been several attempted GJVs in Caricom, but the record of performance has been discouraging. The Caribbean Food Corporation (CFC) was established in 1976 with equity participation by all the member states. Its objective is to produce, process, package, transport, and distribute and market food both regionally and extra-regionally. It can move finance freely throughout the region and work permits for its personnel are granted almost automatically. The CFC has identified a number of projects from the proposed regional agricultural programme for investment. The CFC has operated with modest success in the area of packaging, distribution and marketing of agricultural products. However, it remains badly under-capitalised and has yet to achieve anywhere near its considerable potential.

Two other proposed GJVs were the subject of considerable planning and technical preparation but never got off the ground. The aluminium smelter project envisaged Jamaican and Guyanese alumina being processed into metal in Trinidad using that country's natural gas. Intense negotiations among the three countries over the prices of natural gas and of alumina, and the sharing of benefits, failed to produce an agreement and the project was eventually abandoned.

In the case of fisheries, three projects were proposed to exploit the rich resources in the banks off Antigua and Barbuda, Guyana and Belize. The Caribbean Development Bank (CDB) sponsored feasibility studies as the basis for investment. Subsequent negotiations foundered on the unwillingness of some countries to allow others to participate in the development of their own resources, or to participate in the development of the resources of others.

Other GJVs include the Arawak cement plant, jointly owned by the governments of Barbados and Trinidad & Tobago, CARICARGO (air cargo services), LIAT (air transport), and WISCO (maritime transport). None has had a particularly successful record. WISCO has ceased operation, CARICARGO is in receivership, and the Arawak cement plant and LIAT are both in the process of privatization.

Given the disappointing record of GJVs as well as current policy trends, it is unlikely that this will be one of the principal forms of production integration in the future. They should be limited to particular activities where the case for joint government ownership is overwhelming because the service provided is vital but not suited to private ownership, and where the possibilities of success are judged to be high. Possible examples of this are regional air transport, and regional export promotion.

2.5.5 **Private sector complementary production arrangements**

These arrangements provide for processing of related inputs or specialization among enterprises in two or more countries by formal or informal agreement. Sub-contracting of primary agro-processing activities by food manufacturers, and arrangements between wood products firms and furniture manufacturers, would be examples of such arrangements. Their purpose and effect is similar to that of production integration undertaken by TNCs and JVs. However, a high level of coordination is required for such arrangements to be successful, and as a result they have emerged only on a limited and ad hoc basis in Caricom so far.

The formation of regional private sector trading companies is one such kind of arrangement which could be useful for Caricom. Such organizations could provide a framework for coordinated production and export marketing of a number of small and medium enterprises engaged in export related production activities across the region. The success of the Tata Group of companies in India in promoting the developing of small garment producers and marketing their products internationally is one example from which the region could learn.

2.5.6 **Functional cooperation**

This is closely related to industrial complementation and often is an integral component of such arrangements, but can also be implemented in its own right. It includes joint purchasing, joint marketing, cooperative export promotion, collaboration in R&D, and collaboration in information systems. The functional cooperation of the Windward Islands banana producers through their association, WINBAN, is an outstanding example of the value and workability of such cooperation. A more recent example is the project to market the Caribbean as a single tourist destination through the Caribbean Tourist Association (CTO).

These encouraging results may reflect the fact that many of the difficulties associated with organizing joint production may not be present with functional cooperation. As long as the parties to the agreement perceive benefits to be derived, and do not see themselves as "giving up" anything, then the chances of success are relatively good. However, the impulse for this kind of cooperation may be stronger among the very small states, such as those of the O.E.C.S., than among MDCs which may believe that they are capable of providing many services on their own.

2.6 Conclusions

Production integration is equally valid to the concern of improving productive efficiency as it is to that of increasing the level of resource use. Also, it is an integral part of the process of market-led economic integration. Integration schemes among developing countries have relied considerably on government initiatives to promote production integration, with poor results in most cases. To a large extent, this has also been the experience of Caricom.

The pressures of international competition point to the need to emphasize the role of production integration in improving productive efficiency in Caricom economies, rather than the previous preoccupation with promoting resource mobilization. For this, we have suggested that what is required is a blend of the "market-led" and "state-sponsored" approaches to production integration, rather than a complete abandonment of government initiative. The institutional forms of production integration that are likely to be most relevant are the organization of Caricom-owned regionally integrated enterprises, private sector joint ventures, private sector industrial complementation, and functional cooperation at the private sector and the governmental levels.

3. THE PRIVATE SECTOR AND PRODUCTION INTEGRATION IN CARICOM

3.1 Introduction

Initiatives at production integration in Caricom have been primarily government-sponsored. Moreover, inter-governmental negotiations have tended to take place in a manner that is separate and apart from the world of private sector decision-making. The shift towards greater reliance on market processes and the private sector as the engine of growth among Caricom members, suggests the need for greater involvement of the business community in the planning and implementation of production integration initiatives. Private sector forms of production integration will need to be actively encouraged, primarily cross-border investment, joint ventures, and complementary production arrangements.

This section of the Report is a preliminary review of the extent of the private sector's involvement in, and attitudes towards, production integration. It begins with an overview of the pattern of intra-Caricom trade, to provide a rough approximation of the extent to which the economies of Caricom are linked through trade.

The remainder of Section 3 is devoted to an analysis of the results of a survey undertaken of regionally based firms engaged in cross-border investment within Caricom. The enquiry focused on the factors inducing such investment, the perceived obstacles, and measures which are recommended to governments to facilitate such investments.

3.2 Intra-regional trade and production integration

Examination of the behaviour and composition of intra-regional trade provides some indication of the extent of production integration among the economies of member countries of Caricom. Tables 3.1 and 3.2 provide summary data on the value of intra-regional imports for the years 1987-1991, on the composition by country group, and the composition by type of product.

Table 3.1

The value of intra-regional imports, 1987-1991

	1987	1990	1991	Change 1987-90 Percent	Change 1990/91 Percent
E.C. $Millions					
Intra-regional imports	863	1314	..	+52.4	..
- MDCs	..	802	757	..	- 5.6
- LDCs (1)	..	512	..	..	..
- LDCs (2)		252	282		+11.9
Intra-regional domestic exports f.o.b.		798	1280	..	+60.4
- MDCs	..	1055	971		- 7.9
- LDCs (1)	..	225			
- LDCs (3)		124	109		-12.1

(1) All LDCs ..N.A.
(2) Excl. Montserrat, St. Kitts & St. Vincent, data not available for 1991.

(3) Excl. St. Kitts & St. Vincent

After a severe contraction in the mid-1980s, intra-Caricom trade recovered substantially in the latter part of the decade. In 1990, the value of intra-regional domestic exports was higher by EC$482 mn or 60.4 percent above 1987; and the value of intra-regional imports had grown by EC$451 mn or 52.4 percent over the same period. However, in 1991 intra-regional trade appears to have declined again. While data for all the LDCs are not available, in 1991 MDC exports declined by 7.9 percent below 1990 and MDC imports fell by 5.6 percent. A large part of this decline was due to a fall in Jamaica's trade with its Caricom partners. This appears to have been associated with the breakdown in intra-regional payments arrangements after that country's currency liberalization measures.

The relative volatility in the value of intra-regional trade is itself suggestive that these flows are marginal to the underlying processes of productive activity in the economies. A more detailed analysis over a long time period would almost certainly show that the annual variation in this trade is much greater than the annual variation in the total external trade, and in total GDP, of the member countries. Balance of payments changes in external payments arrangements, have fallen heavily on intra-regional trade, which appears as a kind of "last-in, first-out" item in the external trade of member countries.

In large part this is associated with the nature of the composition of the trade. As can be seen in Table 3.2, in 1990 intra-regional imports were dominated by manufactures (31 percent), mineral fuels (20 percent), food (19 percent), and chemical products (16 percent). Furthermore, manufactured goods (Sections 6 and 8 of the SITC) grew fastest in the 1987-1990 period when trade was recovering.

Table 3.2

Intra-regional Imports

	1990	Change 1987-1990 Percent
Total Value EC$M.	1314	+ 52.4
Percent Shares:		
Section 0 Food	19.2	+ 47.3
1 Beverages & Tobacco	7.1	+ 55.6

2 Crude materials	1.4	- 10.5
3 Mineral foods	19.9	+ 9.6
4 Animal	1.5	+ 38.7
5 Chemicals & products	15.9	+ 72.7
6 Manufactured goods	22.1	+ 94.0
7 Machinery & transport equipment	3.9	+ 52.3
8 Misc. manufactures	8.6	+ 88.3
9 Other	0.1	-

Evidence of production integration would be found in the movement of crude materials and in machinery and transport equipment. These two categories together accounted for only 2.9 percent of intra-regional imports in 1990, and grew by only 9.3 percent in 1987-1990. Subject to the caveat that some items of chemical products and of manufactured goods may contain some intermediate goods, it can be concluded that the only production input of any significance in intra-regional trade is petroleum products.

3.3 The survey

The main objectives of the survey of firms were to identify factors which encourage, and inhibit, cross-border investment in Caricom, the impact of government policies on such investment, and suggested government measures to encourage and facilitate such investment. The survey was conducted in July and August of 1992. A purposive sample of twenty-one firms drawn from Jamaica, Barbados and Trinidad & Tobago was prepared. The list was compiled with the help of official and/or informed sources: JAMPRO in Jamaica, the Caricom Export Development Project in Barbados, and Caribbean Business Development Associates in Trinidad & Tobago. This was supplemented by the results of initial interviews through a snowball effect. We believe that the list includes most if not all the major regionally based firms with cross-border investments in Caricom, and a significant proportion of all companies engaging in such investment. The sectoral and country breakdown of the sample firms is shown in Table 3.3.

The survey was undertaken by conducting personal interviews with senior executives of the firms (CEOs, managing directors, vice-presidents, regional managers, executive chairmen, etc.) An open-ended questionnaire was used. Information was sought on the following:

(i) Sector business
(ii) Nature of investment
(iii) Major costs of doing business
(iv) Reasons for investing in Caricom
(v) Barriers to investment

(vi) Views on the Caricom Enterprise Regime
(vii) Suggestions for incentives to promote cross-border investment.

3.4 Nature and extent of investment

The twenty-one firms identified with cross-border investments were all engaged in manufacturing and service activities. The manufacturing activities of these firms were mainly in light industries of the ISI (import-substituting industrialization) type, such as beer and other beverages, food-processing, plastic products, and furniture. The service firms were mainly in the financial sector (banking and insurance), followed by real estate and management consultancy (Jamaica), and transportation (Trinidad).

Table 3.3

Firms with cross-border investments interviewed according to sector and country:

	Type of Firm			
Country	**Manufacturing**[1]	***Service**[2]	**Both (M&S)**[3]	**Total**[4]
Jamaica	5	4	–	9
Barbados	1	2	2	5
Trinidad & Tobago	5	–	2	7
Total	11	6	4	21

*Includes financial, banking and transportation services.

NOTES:

1. Manufacturing firms

Jamaica: plastic products, beer and beverages, agro-industry, food processing

Barbados: Beer and beverages

Trinidad & Tobago: furniture, automobile assembly, beverages, plastic products.

2. Service firms:

Jamaica: banking, insurance, real estate, management consultancy, money transfers

Barbados: finance

Trinidad & Tobago: finance, transportation

3. Manufacturing/service firms

Barbados: insurance and plastics; catering and meat processing

Trinidad & Tobago: insurance and beer; insurance and aluminium products, ceramics, cosmetics

4. Form of cross-border investment

Jamaica: 3 firms with subsidiaries, 3 with branch offices or portfolio investment, 3 with sales/distribution outlets

Barbados: 3 with subsidiaries, 1 with franchises/ distributors, 1 with joint ventures

Trinidad & Tobago: 2 with subsidiaries only; 2 with subsidiaries, joint ventures and distributorships; and 2 with distributorships only.

The small number of firms identified suggests that very little cross-border investment by regionally based firms has taken place. Moreover, the investment of these firms is more oriented towards sales in the host economies than towards production. Of the 21 firms identified and surveyed, only 9 actually have subsidiaries in other Caricom countries, of which 6 are in manufacturing. 10 of the firms have a form of involvement that is limited to branch offices, franchises, distributorships or sales offices. In other words, private sector organized production integration within Caricom has been minimal.

Given this finding, there is a need for further research among firms **without** Caricom investments to determine the reasons for the lack of such activity. This is a larger undertaking and is beyond the scope of this enquiry. Nonetheless, analysis of the responses of the firms in our survey proved to be interesting and useful.

3.5 Factors explaining cross-border investment

Table 3.4 summarizes the responses to this question. The pattern suggests a combination of "push" factors internal to the firm, and "pull" factors from the host economy.

Table 3.4

Factors explaining cross-border investment within Caricom:

	Rank Order		
	Jamaica Firms	**T&T** Firms	**B'dos** Firms
A. Firm-specific ("push") factors			
1. Business expansion beyond national market	1		1
2. Firm diversification		3	
3. Stepping stone to extra-regional			

exports		5		
B. Host economy ("pull") factors				
4. Protected market	2	4		
5. Cultural affinity		3		
6. Liberalization		4		
7. Low wages			1	3
8. Incentives				2
9. Currency stability			2	4
10. Joint ventures				

Jamaican and Barbadian firms both gave the need and opportunity for business expansion as the most important reason for going into other Caricom countries. Closely related to this is a desire for geographical diversification, which was mentioned by a Trinidadian firm.

Interestingly, only Jamaican firms mentioned the desire to establish a foundation for activity in extra-regional markets as a reason for expanding into other Caricom countries. The main interest here is from firms in the financial sector, some of which have set up operations in the Cayman Islands and in Miami. Some of the firms have their sights ultimately set on the global marketplace.

All firms mentioned a number of "pull" factors in the host economies as complementing the need for expansion and diversification. Access to a protected market in the host country was listed by Jamaican and Trinidadian firms; cultural affinity as a form of "natural" protection was also mentioned in Jamaica. All three countries' firms cited availability of incentives, and low labour costs, in host countries (it is not clear why labour costs would be found to be relatively attractive in other locations all around). Jamaican firms were especially enthusiastic about Guyana's liberalization policies as an inducement to investment. On the other hand, some Trinidadian firms cited currency stability in the host economy as the attraction.

3.6 Costs of doing business in other Caricom countries

Costs of investing in other Caricom countries were generally regarded as lower than those of investing in non-Caricom countries, and not prohibitive. This was another reason for investing in Caricom. Specific areas or costs which were seen to be problematic for the firms were:

(i) Barbadian import duties on capital goods: this is not only a disincentive to investment in Barbados by non-Barbadian firms, but also an incentive to outward investment by Barbadian firms, e.g. to OECS countries;

(ii) air travel costs for managerial and technical staff to other countries, a problem for Barbadian firms;

(iii) costs of training local staff, mentioned by Trinidadian firms; and

(iv) delays in securing investment approval, in some instances.

3.7 Barriers to cross-border investment

Great interest falls on this question, and a wide variety of responses were forthcoming. Jamaican firms were most vociferous on the problems of inadequate payment mechanisms and restrictions on capital movements; but this was much more of a problem to the manufacturing firms than those in services. This problem was not given major significance in Trinidad, however, and even less so in Barbados. All three countries' firms see restrictions on the movement of skilled labour due to work permit requirements, as a major problem area.

Table 3.5

Costs of and barriers to cross-border investment within Caricom:

	Frequency mentioned (a)		
	Jamaica	T&T	B'dos
A. Costs			
1. Delays in securing investment approval	4	3	2
2. Air travel	1	1	1
3. Duties on raw materials	1	1	1
B. Barriers			
1. Payment mechanisms inadequate	4	6	4
2. Capital movement restrictions	3	6	5
3. Work permit requirements	3	7	6
4. Shipping inadequate	5	8	4

5. Air transport inadequate	2	2	4
6. Communications inadequate	3	-	-
7. Company law differences	3	2	1
8. Alien Landholding Act in Trinidad & Tobago	4	-	4
9. CET not implemented everywhere	3	4	4
10. Barbados' import duties on capital goods			
11. Bottle deposit requirements in Barbados	1	3	-
12. Luxury tax in St. Lucia	-	4	3
13. Barbadians hostile to Jamaican firms	4	-	-

NOTE (a): 21 firms responding

Another cluster of problems is associated with infra-structure. Inadequacies in shipping facilities is seen as a major hurdle by Jamaican firms. Although communication has improved in recent years, difficulties were mentioned as regards the OECS and Guyana. The need for up-to-date electronic communication to facilitate cross-border stock trading was also cited. The situation with air transport continues to be an irritant, especially between Jamaica and the Eastern Caribbean, and between Guyana and other Caricom states.

One strongly targeted problem area was legislative regimes. Differences in Company Laws, Trinidad's Alien Landholdings Act, and the absence of double taxation treaties, were all highlighted. More generally, foreign (non-Caricom) firms are seen as having a decided advantage over Caricom-based firms in securing incentives and investment approval in other Caricom countries. One respondent from Jamaica suggested that it would be to a local firm's advantage to register as a U.S. enterprise for this purpose.

Delays in implementing the Common External Tariff (since resolved) were also cited. It should also be noted that Jamaican firms appear to have particular problems with Barbados: import duties on capital goods, bottle deposit requirements, and overt hostility to Jamaican business, were all cited in this connection. In fact, Barbadian respondents tended to agree that it was difficult for firms from other countries to set up business in Barbados, because of tight central bank monetary policies and import duties on capital goods.

3.8 Attitudes to the Caricom Enterprise Regime (CER)

Although the firms surveyed all have some form of cross-border involvement in Caricom, many of them had never heard of the CER. Among those which had heard of the CER, most were not familiar with its terms. A notable exception to this was Barbados, where four respondents were very familiar with the draft document on the CER and two had actually participated in the drafting. These respondents pointed out that Barbados had in fact already enacted some legislative changes giving effect to the proposed terms of the CER. Even in Barbados, however, there was widespread cynicism that Caricom governments will actually implement the CER.

Interviewees were asked to respond to the main provisions of the proposed CER. There was widespread support for the general principle of providing special treatment for firms designated as Caricom Enterprises (CEs). The provision entitling CEs access to host country credit was especially popular in Jamaica. However, several provisions of the proposed CER provoked either disquiet or outright opposition in all three countries. The discretionary authority allowed to host country governments and central banks in granting permission for the remittance of dividends and capital was one of these. Another was the provision to grant tax-free status to government-owned equity in CEs. This was perceived as discriminatory against the private sector, and was universally opposed.

There was disagreement amongst respondents on the provision making the products of CEs eligible for protection against imports through quantitative restrictions. Manufacturers generally were in favour, while others felt that this would encourage inefficiency. Many respondents also complained about the exclusion of manufacturing from the sectors eligible for fiscal incentives under the CER, which are limited to agriculture, tourism and forestry.

In short, the CER is relatively unknown, perceived as unlikely to be implemented, and if implemented is seen as having major flaws.

Liberalization of exchange regimes in Jamaica and Guyana, as well as repeal of aliens landholding legislation in Trinidad and Tobago and the O.E.C.S., have considerably diminished the significance of the advantages offered under the CER. The survey results are nonetheless revealing in regard to the lack of information, communication and credibility within the business sector regarding Caricom initiatives.

3.9 <u>Recommended measures for encouraging cross-border investment</u>

These are listed in Table 3.6, and correspond closely to the barriers identified in Table 3.5. Respondents from all three countries agree strongly on the necessity for liberalization of capital controls as a means of encouraging intra-Caricom investment. Jamaican respondents were the most strident in advocating total liberalization of the exchange regime along the lines of Jamaica and Guyana.

Linked to this is the suggestion to establish a single currency for intra-regional transactions, possibly US dollar or the EC dollar. Abolition of work permit requirements for Caricom nationals was also recommended everywhere.

Apart from the implementation of the CET (since decided), several measures in the sphere of legal regulation of business activity were also proposed. These have to do with the repeal of the Trinidad Alien Landholdings Act, the modernization and harmonization of Company Law throughout Caricom, and the conclusion of double taxation Treaties among members.

Improved infrastructure of transport, communications and telecommunications were also recommended from all quarters. Most respondents from manufacturing firms see the need for special incentives for this sector to encourage regional involvement. Linked to this is the need to forge a much closer relationship between officialdom and the private sector. Some respondents would like to see a direct communication link between the Caricom secretariat and businessmen. Interestingly, some have singled out the need for joint ventures and cooperative relationships, both within Caricom and between Caricom and non-Caricom firms, as a key strategic means of strengthening the competitive position of Caricom producers.

Table 3.6

	Frequency mentioned (a)		
	Jamaica	**T&T**	**B'dos**
1. Liberalize exchange and capital controls	8	5	3
2. Establish regional currency	4	4	4
3. Free movement of labour/skilled labour	5	5	4
4. Full implementation of CET (b)	6	5	4
5. Establish intra-CARICOM double taxation treaties	4	3	–
6. Form political union of Caricom	–	–	3
7. Modernize and harmonize Company Law	3	–	–
8. Change Trinidad Alien Landholdings Act	3	–	2
9. Improve shipping/transportation	4	–	–
10. Improve information technology for cross-border stock exchange trading	4	1	–
11. Foster more positive attitude by national bureaucracies to Caricom firms	4	3	2
12. Strengthen regional mass communication	3	3	–
13. Provide incentives for manufacturing	4	5	4
14. Form joint ventures for extra-regional exports	4	2	2
15. Foster Cooperative ventures	2	3	–
16. Improve government-private sector communication/relations	2	2	–
17. Establish direct Secretariat-private sector relationships	6	4	3

NOTE (a) 21 firms responding
(b) before Oct. 1992 decision

3.10 Conclusions

Analysis of the composition and behaviour of intra-regional trade shows the limited degree of linkage of the production structures of Caricom economies. Survey results show the extremely limited extent of private sector production integration: the number of firms with cross-border investments in Caricom is small, most of their involvement is with sales and distribution facilities or horizontal expansion, none surveyed were involved in vertically integrated production across countries.

The survey findings indicate the overwhelming importance of establishing a macro-economic environment on the regional level that facilitates private sector production integration. Among the key facilitators will be an adequate infrastructure of communications and transport, smooth payments mechanisms, free movement of capital and labour, harmonized business legislation, and elimination of bureaucratic impediments. Most, if not all, of these would be provided by the establishment of the Single Market and Economy, which is the basic **sine qua non** of production integration organized by the private sector.

An equally important, but less recognized, problem is the apparent gulf that exists between the private sector and governmental processes. Some firms perceive that foreign (extra-regional) investors are preferred to those from sister Caricom states, who are treated with indifference or outright hostility by some national bureaucracies. One of the most notable findings of the survey is that few of the enterprises operating regionally are familiar with the proposed Caricom Enterprise Regime, and that most of them are harshly critical of its provisions and in any case do not believe that the governments are serious about its implementation. As these are the most "regionally oriented" of the Caricom private sector, these findings point to the urgent need for a new regime of trust, communication and collaboration between the official structures of Caricom and the business classes in the region.

4. THE EUROPEAN EXPERIENCE WITH PRODUCTION INTEGRATION

4.1 Framework and record

Production integration in Europe has been largely private sector driven and market oriented. Given the size of the European market it has also been aimed at more effective exploitation of the European market. The consensus on production integration was forged out of the French desire for government intervention and Germany's preference for market oriented solutions. Prior to the formation of the Economic Community, French planning was aimed at providing assurances for business firms in regard to both the supply of inputs and the sale of outputs. This required the imposition of protective measures to insulate domestic markets from foreign competition. The French wanted this system to be implemented at the community level. The Germans, on the other hand, expressed the intention to rely on market forces and its interventions were limited to a few problem sectors such as coal and shipbuilding. The other four of the original six countries had planning systems somewhere between these two extremes.

The view put forward by the European Commission was that the Medium-term Economic Programme "would be an instrument for coordinating economic policies and not the activities of trade and industry" and in no circumstances should policy coordination result in an increase in government intervention in the economy. Rather, it was suggested that creating a rational framework for Community decisions and governmental action, far from extending such interventions, will tend to diminish their number and scope[1]. The transplanting of the French methods of planning to the Community level were rejected because they reflected a tradition of close cooperation between government and business, similarity of background between government officials and business, and a long tradition of government involvement in business which was absent in the other countries.

Production integration to take advantage of the extended European market was largely left up to market forces, except for specific areas - common policies in agriculture, fisheries, and transportation. The Industrial Policy was aimed mainly at increasing competition with minimal intervention to encourage hi-tech industries and help out problem industries.

Table 4.1

Implantations, Cooperation Agreements and Mergers in the EC

Establishment of Subsidiaries

By member country firms	2300
By third country firms	3546

Production Cooperation Agreements

Between national firms	2352
Between member country firms	1001
Between member country and foreign firms	2797

Mergers

[1]Recommendation by the Commission to the Council, 26 July, 1963. Cited in Balassa (1975)

Between national firms	1861
Between member country firms	257
Between member country and foreign firms	820

Source dates:

During the 1960s European-owned multinationals emerged out of a spate of mergers, while foreign multinationals formed joint ventures with firms in different countries in the common market. Industrial complementation occurred under the aegis of the European Economic Interest Groupings (EEIG). This is an arrangement whereby firms in different member countries may enter into agreements governing the sharing of technology, research and development within the protective framework of Community Law.

However, mergers, and to a lesser extent production cooperation agreement among firms, took place largely within a particular country rather than between countries (see Table 4.1).

4.2 Obstacles

The obstacles which resulted in the paucity of cross-border production arrangements include: legal, fiscal, capital market restrictions, technical standards and public purchasing policies.

4.2.1 Company Law

In spite of the numerous directives issued by the Council of Ministers there has been surprisingly slow progress in harmonizing the Company Law in member countries. A company seeking to operate in more than one member country faces legal complexities far greater than those experienced if it is resident solely in one. Greater harmonization of national company laws would make it increasingly possible for an enterprise incorporated in one member state to operate freely in another. A second approach favoured by the European Commission is the creation of a separate Community company law which would allow an enterprise incorporated under it to operate in any member country.

The draft statute has languished in the shadow of disagreement for more than twenty years and in 1989 the commission submitted a new draft Company Statute for the consideration of the Council of Ministers. It is still to be agreed upon. The problem is essentially that no member government is willing to abandon any provision concerning the ownership or operation of companies within its boundaries which it deems necessary in its national interest.

4.2.2 Taxation

Corporate taxation in the EC has evoked the same kind of contentious disagreement as the reform of company law. Unfortunately the Treaty of Rome refers only to the harmonization of indirect taxes so there is no authority for a proposal to harmonize direct taxes. The structure of corporate tax varies considerably in the different countries. Countries like the UK favour a single corporation tax which is completely distinct from personal income tax. Germany favours a split rate system under which the rate of tax applied to profits which are distributed differs from the rate applied to profits which are ploughed back.

A proposal for a common withholding tax of 15% was presented by the Commission in 1989 and promptly disappeared in disagreement as countries tried to safeguard their tax base. This means that companies operating in more than one member country would face complexities related to the structure of company taxes. This has worked to the advantage of American firms which can centralize their European operations in a holding company in a country providing favourable tax treatment. This has been done with considerable success by IBM which has accomplished product-by-product specialization by its subsidiaries located in different European countries.

In spite of abolition of the restrictions on the movement of capital, the differentials in the structure of corporation tax has inhibited the flow of capital between the countries. The after-tax rate of return on investment can vary significantly across countries because of the location, for tax purposes, of investment rather than as a result of strictly economic considerations.

4.2.3 Other obstacles

Apart from this, the lack of equal treatment of the obligations issued in member countries obstructs the movement of capital. The admission of securities for trading in the exchanges of the member countries is a difficult and costly process and member countries apply formal and informal procedures aid limit the issuance of securities by other than their own companies.

The full utilization of the possibilities offered by the expanded market has been impeded by the existence of differing national standards. This is because of the additional cost involved in gathering information on technical standards of the partner countries and in adapting production to these standards, which involves foregoing some of the benefits of large scale production. Much progress has been made on the harmonization of standards and the mutual acceptance of the standards of the other member countries; this barrier is expected to be eliminated with the completion of the single market.

Another obstacle to formation of mergers which should disappear with the completion of the single market is nationally protected procurement markets. The central and local governments as well as public enterprises have continued to discriminate against suppliers from partner countries notwithstanding the provisions of Article 7 of the Treaty of Rome.

4.3 Industrial Policy

Although production integration has been left largely up to the market, the European Commission plays an indirect role in the process, by developing an Industrial Policy and an Agricultural Policy. The industrial policy is aimed at

(i) controlling mergers;

(ii) harmonizing Company Laws;

(iii) removing national restrictions and discriminatory aids; and

(iv) encouraging the creation or expansion of newer high technology industries.

Industrial policy rests on the proposition that unrestricted market forces do not necessarily secure optimum social results or do not attain them as rapidly or as fully as might otherwise be the case. The differing position son the role of the state in the economy resulted in an industrial policy which was imprecisely defined in the initial stages and only began to take form at the onset of the recession in the mid-seventies.

One aspect of the industrial policy which suffered from a lack of a coherent strategy is the set of measures to influence the structure and size of enterprises. Article 86 gave the Commission the power to intervene when a firm had acquired dominant status and sought to abuse it. The Commission could intervene when the firm had acquired dominant status, but was powerless to prevent the dominance emerging. Moreover, the restriction of mergers conflicted with the need to increase the size of the firms to reap economies of scale by establishing larger plants, product specialization and longer production runs, as well as economies of scale in distribution and research. This would enable them to compete on equal footing with other international firms, particularly from the USA and Japan. Only on the formation of DG III, the Community directorate concerned with industrial and technological affairs was this other side of the merger issue addressed. In the context of Caricom the encouragement of strong regional firms is a first order of priority.

The issue of mergers attracted a considerable amount of the Commission's attention because it impacted the Community trade in a significant way. The encouragement of small businesses was given short shrift. However, in 1985 the Council of Ministers emphasized the need to promote small businesses as part of the general strategy to promote growth and employment in the Community. In the following year it approved an action programme to encourage and coordinate national measures in this field. These included, training for small businesses, easier access to capital, help in developing export markets and other forms of technical assistance.

The onset of the recession after the oil crisis of 1973-74 accentuated the problems of the Community's older industries like shipbuilding, textiles and steel. Throughout the 1960s the competitiveness of these industries steadily fell behind that of the same industries in the newly industrialized countries. Facing a crisis the individual countries adopted a series of beggar-thy-neighbour policies to assist their own industries. While these policies may benefit an individual country acting on its own, general application of these policies by all countries was counter-productive. Thus, emerged the Community policy of `Helping Lame Ducks' aimed at rationalizing and modernizing the aging industries. The rationalization of national aids to the industries, the establishment of quotas and the restriction of imports via voluntary export restrictions and quotas under the multi-fibre agreement for textiles were largely successful in saving the industries and improving their competitiveness. In the rationalization of national aids, they were subject to two tests. The first is that they should encourage the industries to be more efficient and second they should at most maintain existing capacity, but better yet reduce it.

The Colona Report which enunciated the Community's industrial policy envisaged the creation or expansion of the newer, hi-tech industries rather than preserving the old. This was the basis of the policy of `backing winners'. The Commission did not have the financial or technical resources to undertake Research and Development (R & D) and hence its role had to be limited and indirect. Its role then was to coordinate the activities to minimize duplication and overlap. The Commission's record during the 1970s and early 1980s was not flattering. There was a proliferation of organizations and groups with a bewildering array of acronyms like Basic Research for Industrial Technology in Europe (BRITE), Joint European Tours (JET), European Strategic

Programme of Research and Development in Information Technology (ESPRIT) and Research and Development in advanced Communications Technology for Europe (RACE).

The Single European Act of 1986 called a halt; it required the Community to strengthen the scientific and technological basis of European industry and to adopt a multi-annual framework for R & D activities defining the objectives, the priorities and the amounts required. A framework programme, covering the period 1987-91 was presented by the Commission in 1986. It provided for eight areas of activity with a total budget of ECU 7.7b. The areas of activity include: information technology, telecommunications, energy, biotechnology, and the exploitation of marine resources. Although some of the work is performed by the Joint Research Centre under the control of the Commission, the bulk is carried in national research centres with the Community typically meeting 50% of the cost. It must be noted that Community sponsored research is a small fraction of the (R & D) conducted by private firms and national organizations but its role in pointing the direction, and coordination collaboration and exchange, may lead to more significant progress than before.

4.4 The Common Agricultural Policy

The Common Agricultural Policy (CAP) is one area in which the French concept of *l'economie concertee* dominated, because all of the other member countries like France treated agriculture as a special case meriting special measures. The objectives of the CAP are

(i) to increase agricultural productivity;

(ii) to maintain a fair standard of living for farmers;

(iii) to ensure regular supplies to customers;

(iv) to stabilize markets; and

(v) to maintain reasonable prices.

The CAP has two basic elements: a short-term stabilization element and the guidance element which deals with long-term structural reform. Little attention and resources have been committed to the latter. The stabilization element assures the maintenance of high farm incomes via a complex framework of regulations involving higher than world market prices, variable levies on imported commodities and export subsidies enabling European exporters to compete at world market prices. The guidance aspect is concerned with policies for the improvement and modernization of the community's agriculture structure.

The exact implementation of CAP varies from commodity to commodity, but there are some common features which result in equal treatment for agricultural producers in the entire Community. It does this by ensuring free access to all markets within the Common Market and providing a common system of protection against third country imports. The common policy relies on a system of variable levies applied to all commodity groups except fruits and vegetables. It can be illustrated with the case of wheat, not only because its treatment is typical but because the price of grain determines the price of most other agricultural products.

The calculation of the variable levy to be applied to imports involves three steps. First, a target or indicative price is determined and is the theoretical price towards which the market should trend. Next, a threshold price is fixed at which imports of non-member countries can enter the EC and which is lower than the target price by transportation cost from the port of Rotterdam to the city of Duisburg in the Rhur. The import levy is computed on a daily basis as the difference between the threshold price for the commodity and the world price. The result is that after paying the levy and transport cost no importer of wheat would be able to sell profitably at less than the target price hence guaranteeing the market for Community producers.

Along with the variable levies, intervention prices are employed to ensure the maintenance of a guaranteed floor price which is set somewhere between 90% and 95% of the target price. At that level government agencies will undertake support buying to maintain he price. The CAP keeps market price within two limits; the upper limit is the threshold price and the lower limit is the intervention price. If excess demand pushes prices above the threshold price imports from non-member countries come in to satisfy the excess demand.

Additional instruments are used to similar effect for other commodities. The levy and sluice-gate price system, which involves an import levy and an export subsidy but no provision for guaranteed producer prices and market intervention, is used for pig meat, poultry, eggs and milk. Basic prices, which are exactly like target prices, but are not used to calculate variable levies but rather a guaranteed minimum wholesale price, are used for beef, veal, fruits and vegetables. Norm prices, which are similar to target prices except that deficiency payments (rather than the application of levies) are paid to domestic producers to bring the price received up to the norm price, are used for durum wheat.

In practice the structural side of the CAP has not been accorded as much attention and resources. The proposals for structural change in the Community's agriculture were set out in the Mansholt Plan in 1968. The report argued that the price support system was inadequate to achieve rising living standards in agriculture and that price support may be counter-productive in the long-term context. If guaranteed prices had the effect of maintaining the existence of a large number of holdings, many of which were not truly viable, the object of increasing the level of productivity could not be achieved.

The plan recommended a 7 percent reduction of the area under cultivation and a one-half reduction of the work-force. This was to be achieved by national retirement schemes for older farmers. Marginal farms were to be given priority in the allocation of land released by retirement and non-viable farms were to be phased out. Farming technology was to be improved by Community-subsidized training programmes, loans for farm mechanization and the provision of consultants etc.

Although the logic was indisputable, fear of the political fall-out caused the plan to be shelved but some elements, suitably modified were proposed from time to time by the Commission. Three directives issued in 1972 were described as `a pale reflection' of some of the proposals. The plan is no longer to transform small farms into larger ones generating high income but rather to enable small farmers to survive with a reasonable quality of life. An annual average of ECU 420 m. was earmarked for this purpose during the period 1985-94, with a further ECU 270 m. a year hopefully being made available for schemes to improve agricultural marketing and processing.

The CAP has been quite successful in achieving the objective of increasing the level of productivity of the Community's agricultural sector. During the 20 years 1965-85 output rose by roughly 48% while the work-force fell by 52%; output per capita increased by about 210% compared to 106% in manufacturing. It may be argued that it was a result of improved technology, and not due entirely to CAP. However, since there were also technological improvements in other sectors, the comparison remains valid unless it can be proved that technological advances were much greater in agriculture, which has not been the case.

On the objective of narrowing the gap between agricultural and non-agricultural incomes, the record is less flattering. In 1965 the per capita value added in agriculture was ECU 5700 (1986 prices) less than the average of the rest of the economy; by 1985 the gap had increased to about ECU 7500. Moreover, the CAP has benefitted larger, prosperous farmers to the detriment of small farmers because the benefits are directly related to the level of output.

The objective of stabilizing markets has been successfully achieved. Agricultural prices have never fallen from one year to the next, and in general they have risen more slowly than the general level of prices. However, this has been at the expense of persistent surpluses which have led to widespread dumping in third countries, perhaps destabilising markets in other countries. The objective of ensuring reasonable prices to consumers cannot be said to have been achieved as community prices are consistently higher than world market prices.

The conclusion is that the stabilization element of CAP has been inefficient in terms of its own stated objectives and is doing so at enormous cost. The long-run guidance element has only met with marginal success. Very little land has been withdrawn from production. It is clear that the price stabilization element is inconsistent with the long-run guidance element. Most analysts agree that it is well past the time to abandon a system which generates high consumer prices and consequent welfare losses in favour of a system of income supplements related to the needs of individual farmers and not to their ability to inefficiently produce output in excess of consumer demand.

4.5 The Common Fisheries Policy

The treaty of Rome defined fisheries as part of agriculture and was to be part of the CAP. However, a common fisheries policy never emerged until June 1970 when negotiations were about to begin to extend the Community to include major fishing nations like the UK, Denmark and Norway. Fisheries have greater claim to a common policy than agriculture because most of the activities take place across and beyond the territorial waters of the individual countries. Nearly 90% of the cod in the North Sea are spawned in Danish, Dutch and German waters, but by the time they are three years old about 75% are found in British territorial waters.

There are two features of the industry which make a common policy mandatory. These are the vast improvement in fishing technology and the extension of the exclusive economic zone (EEZ) to 200 miles. By the end of the decade of the sixties much larger ships equipped with sonar for tracking fish, refrigeration facilities and nets with immensely larger capacity replaced the traditional forms of fishing. If this increased efficiency of harvesting remained unregulated, given a relatively fixed stock of fish, it would have been the recipe for biological disaster.

The expansion of the EEZ had serious implications for many of the Community member countries. EC fishermen traditionally operated in waters well within the 200 mile limit around the coast of non-EC countries like Iceland, Norway and Canada. Conversely, those three countries became more competitive given -their monopoly in their newly extended EEZ. At the same time, EC fishermen became less competitive because they could not now spread the rising fuel costs over the big catches in more distant waters.

The Common Fisheries policy was to rest on the principle of equal access to the territorial waters of all member countries by each other, since all member countries were notionally one single market. Some countries objected, arguing that the same principle did not apply to offshore oil and natural gas deposits or for that matter inland deposits of coal and other minerals. The accession treaties gave temporary derogations to allow exclusion zones. In the case of the UK, this provided that fishing within six miles of the British coast would be restricted to vessels which had traditionally operated within the limit, and which operated from ports in that geographical area. Another article extended this restricted access to a distance of 12 miles off the coast of Scotland and North-East England, areas where fishing is of great importance. The final agreement arrived at in October 1982 provided for Community licenses specifying the number of vessels from each member country, to be granted for fishing in the area around the Orkney and Shetland islands.

The Common Fisheries Policy, like CAP, has an element of price support and a long-term structural element. There is an official guide price for each species of fish, and a lower intervention price (a withdrawal price) at which fish would be withdrawn from the market. A varying proportion of the intervention price is refunded to producer's organizations in the Community. The refunds are nowhere near the scale of CAP, and the official guide price was more realistic. The official guide price was based on the average actual market prices during the three preceding years and the withdrawal price was up to 30% lower than the notional guide price. Producer organizations could reduce or supplement the withdrawal price by up to 10% but they would have to finance these through levies on their membership.

The long-run structural element is aimed at conserving the stocks of fish. The Commission issues directives on the minimum mesh size for nets, minimum size of fish landed and the duration of the fishing season. It also, on an annual basis, based on scientific advice, declares a Total Allowable Catch for each of the main species of fish. This Total Allowable Catch for the Community fleet as a whole is allocated to the individual member countries via a prices of negotiation. National governments were free to adopt their own conservation measures in addition to those specified by the Commission but in doing so should not discriminate against fishermen from other member countries.

Unlike CAP the budgetary resources allocated to the common fisheries policy is quite modest hence attempts at a long-run structural policy must also be modest. It is largely confined to mild encouragement of retirement of obsolete vessels and the improvement of technology, marketing and research. The aims of long-run structural policy like CAP also conflicts with the short run price support, since the aim of the former is to reduce and the aim of the latter is to encourage. However, thus far the effect of the price support policy has been to reduce the short-run instability of prices rather than to increase the level. The common policy has also benefitted the Community through the negotiation of favourable agreements with most of the major fishing nations in the world.

4.6 Lessons from the European experience

An assessment of the European experience in production integration and common sectoral policies leads to the following conclusions:

(i) The more market oriented industrial policy has been relatively more successful than the agricultural policy, which tries to isolate the industry from market forces.

(ii) However, even in the case of industrial policy, EC policy-makers have concluded that market forces have to be supplemented by government intervention.

(iii) In spite of a fairly long period of integration, production agreements between EC firms are less than would be expected. Thus, there is need to actively promote such cooperation and remove any obstacles which may exist.

(iv) The experience of agriculture and fisheries suggests that there is a fundamental inconsistency between short-run price support and long-run structural adjustment of the industries.

As regards its relevance for Caricom, the following lessons are suggested:

(i) Even with a high degree of market integration, production integration arrangements amongst member country firms may not occur on a significant scale. Thus, specific action will need to be taken to identify the non-market barriers to production integration and to remove them.

(ii) Among the most important non-market barriers which were important in the EC and may need to be addressed in Caricom, are differences in (a) company law; (b) company tax regimes, especially incentives legislation; (c) securities trading regulations; and (d) national technical standards.

(iii) Common sectoral policies, involving some degree of government intervention, are a necessary complement to the elimination of market and non-market barriers in creating a facilitating framework for production integration.

(iv) Given the vast differences in size and trade-dependency between Caricom economies and EC economies, production integration in Caricom will need to have a much stronger external orientation. This means that it should have as a major objective the improved competitiveness and greater diversification of export activities, and should complement external trade policy and be consistent with the macroeconomic policy environment.

(v) Given the extremely low degree of economic diversification of the LDCs in Caricom, special measures will be necessary to assist these member states in the expansion and diversification of their production and export base.

5. THE FRAMEWORK OF PRODUCTION INTEGRATION AND SUPPORTING MEASURES

5.1 Elements of the framework

We recommend four critical elements in the framework for production integration:

(i) establishment of **The Caricom Single Market and Economy (CSME)** to permit free movement of capital, entrepreneurship, and skilled and professional labour throughout the region. This is the most basic requirement;

(ii) provision of **an appropriate and stable macro-economic environment** to encourage intra-regional economic transactions in general and intra-regional investment in particular;

(iii) provision of an **adequate physical infrastructure** for intra-regional trade and movements of capital and human resources; and

(iv) implementation of a **Common Industrial Policy** to provide incentives and government support for specific private sector activities where production integration of one kind or another can enhance international competitiveness.

This Section discusses mainly (i) and (iv) above, emphasising the theoretical rationale, and supporting measures, for the Caricom Single Market and Economy and a Common Industrial Policy. Some comments are also made on (ii), infrastructure, and (iii), the macro-economic policy framework (which is also the subject of a separate report).

5.2 The Caricom Single Market and Economy

5.2.1 Concept and Meaning

The Grande Anse Declaration by Caricom Heads of Government (1989) called for the establishment of a Single Market and Economy in the Community by mid-1993. However the precise meaning and content of the Single Market and Economy (SME) were left for subsequent clarification and negotiation. The Caricom Secretariat, with the help of the European Community, published a long report on the issue in June 1991 (Caricom 1991). The attributes of an "ideal" SME are discussed and evaluated for their relevance to the circumstances of Caricom. The Report concluded that the Caricom SME would differ from the "ideal" SME as summarised in Table 5.1 below.

However in the absence of free movement of services, free circulation, and a common trade policy; it is questionable how far an integration area can function as a Single Market and Economy . In a subsequent report to the Heads of Government (Caricom 1992), the Secretariat's position was summarised as follows:

> ..(The Caricom SME) would differ in detail from the ideal Single Market and Economy. It would be based on the free movement of goods, services, capital and labour with the supporting monetary, fiscal and economic policies for the Single Market. There would be some amount of additional harmonisation of economic policies for the Single Economy to provide for a much higher degree of production integration...........
>
> For the Single Market, the focus must be on facilitating the free movement of labour and capital so as to provide a supportive base for the integration of production. (id. Paras 19, 20.)

TABLE 5.1 RECOMMENDED FEATURES OF THE CARICOM SINGLE MARKET AND ECONOMY

A. Attributes of the ideal SME

1. Free movement of goods and services
2. Common External Tariff
3. Free circulation of goods and services within the community 4. Common trade policy
5. Free movement of capital, including abolition of exchange controls, common exchange rate discipline, fixed exchange rates and free convertibility of regional currencies or a single currency
6. Free movement of labour
7. Harmonization of "some" aspects of economic policy, eg budgeting
8. Other supporting measures

B. Deviations of proposed Caricom SME from the above

1. Standards should not necessarily be harmonized, except for mandatory standards.
2. Free movement of services should be phased in.
3. Free circulation not being recommended at this stage
4. Trade policy not necessary to be common
5. Single/common currency not being recommended at this stage
6. Exchange rates can be fixed and adjustable within limits, not immutably fixed
7. Internal taxes may be approximated rather than harmonized
8. Free movement of persons does not include the harmonization of social services

Source: **Towards a Caricom Single Market and Economy.** Caricom Secretariat and Caricom Export Development Project, June 1991. Pp. 11-16; 55-56.

This position is much closer to what we would advocate. By comparison with the 1991 Report, it is considerably more decisive with respect to the necessity for the free movement of production factors. However it is notably less specific with respect to the degree of policy coordination that is necessary. The ambiguity on the question of policy coordination may represent either genuine technical uncertainty on the issue[2], or a deliberate decision to leave the question open for political negotiation. In either case, the ambiguity is unfortunate, for we consider that it is important for the Secretariat to provide strong conceptual and intellectual leadership on this question.

[2]There has been, for instance, some discussion amongst technocrats on the relative merits of "policy convergence" vs "policy harmonization", with some arguing that the former is a more feasible, and equally effective, objective for Caricom at the present time.

In an attempt to clarify the issue, we review below some of the theoretical arguments with respect to the free movement of production factors, and the supporting macroeconomic environment, in realising production integration.

5.2.2 **The case for factor mobility**

A fundamental requirement for the spread and successful operation of private sector organised production integration, is the free movement of capital, entrepreneurship and skilled labour throughout the region. The views of the private sector in this regard, as revealed by the survey findings, receive firm corroboration from economic theory. Given differences in the endowments of production factors among member states, efficient combination of such factors requires that they be freely mobile. Producers have to be free to acquire resources of the highest quality at the most favourable prices. Restrictions on factor movements will prevent firms from realising their full potential and will hinder their ability to compete on domestic and foreign markets.

5.2.3 **Factor mobility: capital**

Capital movement is required not only to ensure the equality of rates of returns across the region but also to achieve the gains from investment creation. Both trade creation and trade diversion imply re-allocation of production and hence investment flows. Trade creation implies disinvestment in the less efficient member countries and net investment in the more efficient member countries. If investors in the less efficient countries are free to transfer their investment to the more efficient ones, there would be less resistance to adjustment in production patterns. Trade diversion also results in new investment in the more efficient member countries and its finance would be facilitated by financial flows from the other countries. Thus, the free movement of capital would greatly facilitate the adjustment in production patterns which would be required.

The free movement of capital may lead to operational economies of scale so that economic resources employed in the process of financial intermediation and the transformation of savings into investment are reduced. It may also improve the allocative efficiency of the financing process by providing both lenders and borrowers with a wider range of financial obligations, enabling more efficient choices in terms and duration of risk. Larger projects could be financed with the more efficient use of financial technology, thus facilitating the financing of optimal scale by enterprises.

The adverse effects of capital movements have already been mentioned, but these do not weaken the case for capital movement. The free movement of capital should be accompanied by measures to improve the business environment in disadvantaged areas such as guarantees for investment, information regarding economic conditions and the possibilities of private investment, avoidance of double taxation and other forms of distortions.

5.2.4 Factor mobility: labour

The movement of at least skilled labour is required to complement the movement of capital in achieving the maximum benefit of production integration. If capital is allowed to move then labour should also be allowed to move to take up the jobs created by the movement of capital. If labour mobility is restricted, the movement of capital in response to the required changes in the pattern of production would cause excessive unemployment in the regions from which capital migrates.

Labour would move if the difference between earnings at the place of emigration and the place to which they emigrate is greater than the sum of the interest on the cost of movement and the intangible costs of migration. However, some workers may be willing to move, but borrowing facilities may not be available to them to finance the cost of migration. This, along with irrationally high estimates of intangible costs of migration may limit the movement of labour.

The possibility of perverse movements of labour always exists but can be offset by appropriate regional policies to limit the excessive movement of labour. In order to conform to the resource endowments of the disadvantaged regions it may be more efficient to subsidize the use of labour rather than capital. This can be effected by applying differential payroll taxes, with higher than average rates levied in regions with excessive concentration. It would have to be supplemented with measures to improve the attractiveness of the disadvantaged regions. These measures would have to be applied under a common accord to avoid policy competition among member states.

5.2.5 Factor mobility: entrepreneurship

The importance of movement of entrepreneurial resources is often overlooked. However, there are differences in the endowments of entrepreneurial resources just like there are differences in the availability of capital and labour. Some of the factors which account for this include social rigidities, differences in cultural outlook, disinclination to risk taking, lack of business education and historical mercantile inclination.

Two forms of entrepreneurial activity can be identified. The first refers to the routinisable managerial function of coordination of other factors of production and supervising production (the neoclassical entrepreneur). The second is the non-delegable, non-routinisable activity of risk taking, alertness to profitable opportunities and innovation (the Schumpeterian entrepreneur). Both types of entrepreneurial activities are required for efficient production coordination.

The unwillingness to allow the movement of the independent entrepreneur is even stronger than the aversion to accept the inflow of managerial skills. Fears of the impact on the social structure and the need to develop home-grown entrepreneurship are usually cited as the reason.

Similar to the movements of labour and capital, perverse movements in entrepreneurial resources can occur. Undesirable movements in entrepreneurial resources may also result from expected changes in policy. However, perverse movements can be countered by harmonized monetary, fiscal and other policies. The general conclusion is that if the necessary actions are taken in order to avoid the perverse movements of productive factors, the mobility of labour, capital and entrepreneurial resources results in the more efficient use of economic resources.

Caricom has tried to get around the resistance to the movement of factors via the establishment of the Caricom Enterprise Regime. Although this is a laudable step, it is only a second best solution to the free movement of factors.

5.2.6 The macroeconomic environment

The role of the macroeconomic environment in facilitating production integration is twofold. First, the macroeconomic environment must be conducive to the taking of the kind of long-term investment decisions that are required to bring about production integration. This has to do with the control and management of macroeconomic variables.

Second, the macroeconomic environment should be sufficiently similar among member states as to reduce the perceived risk and uncertainty associated with cross-border investment and other forms of production integration. This has to do with macroeconomic policy harmonisation.

With regard to the first, the critical variables are inflation, exchange rates and interest rates. Productive investment is encouraged by low inflation, stable and competitive exchange rates, and low interest rates for long-term investment capital. In turn, this requires fiscal discipline, monetary restraint, and money incomes growing in line with productivity.

Wide differences in macroeconomic policies among member states will act as a disincentive to production integration, because investors will need to factor in the risk and uncertainty associated with combining factors of production in locations with wide differences in the macroeconomic variables which affect the expected returns. For the same reason, wide differences in the taxation of labour and capital among member states will discourage the combination of factors of production for production integration. In terms of investment decision-making, wide macroeconomic policy differences has an impact that is quite similar to that of formal obstacles to the free movement of production factors. The rationale for policy harmonisation is the removal of the obstacles to production integration that is brought about by such differences.

To sum up: the role of the macroeconomic environment and macroeconomic policy harmonisation is to encourage long term productive investment and the combination of factors of production across the region, that is the means of realising production integration for structural diversification with competitive efficiency.

5.2.7 Essential features of the Caricom SME

We may now attempt to combine the conclusions of the theoretical analysis above and those of the survey of cross-border investment in Caricom, to suggest what might be the essential features of the Caricom SME for the purposes of encouraging, and facilitating, production integration. These are listed in Table 5.2.

TABLE 5.2 SUGGESTED FEATURES OF THE CARICOM SME WITH REGARD TO FACTOR MOBILITY AND POLICY HARMONISATION

A. Mobility of **Capital**

1. Absence of restrictions on, and automatic approval of, intra-Caricom investment, (ie investments by Caricom nationals or firms owned and controlled by Caricom nationals in Caricom member states);

2. Absence of restrictions on capital repatriation and remission of dividends, profits and interest, on the above;

3. Free currency convertibility among member states;

4. Equality of treatment with host country enterprises for intra-Caricom investments with respect to (i) access to host country commercial credit; (ii) tax treatment; and (iii) eligibility for fiscal incentives;

5. Harmonisation of Company Law throughout the member states.

B. With respect to the movement of **Labour**

1. Abolition of work permit requirements for Caricom nationals in all member states; beginning with business persons, professionals and skilled workers;

2. Right of all Caricom nationals to live, settle, work and own property in all member states, beginning with the above categories of persons;

3. Elimination of passport requirements for outward and inward travel among Caricom states;

4. Automatic entry visas at port of entry for an agreed standard duration, (say, three months) for Caricom nationals in member states, subject to security requirements.

C. With respect to **economic policy harmonisation**

1. Harmonisation of monetary, fiscal, and exchange rate policies among member states to achieve (i) low inflation, (ii) stable and competitive exchange rates, and (iii) low long-term interest rates;

2. Harmonisation of rates of personal and corporate income tax, and value added tax; and of fiscal incentives;

3. Harmonisation of laws and regulations which have a major impact on the business environment; eg those relating to product quality standards; zoning; labour conditions; health; safety; and the environment;

4. Harmonisation of external trade policy; with the stated objective of achieving a Common External Trade Policy within a given time-frame;

5. Implementation of a Common Industrial Policy by member states (see Section 5.4

below.)

_5.2.8 **Phasing of implementation**

The priority elements for immediate or short-term implementation are those to give effect to the free movement of capital and labour within Caricom. Implementation of these measures will have an important psychological impact on the business environment, serving notice to investors that the establishment of the Single Market and Economy is well under way.

Harmonisation of economic policy will involve an extended period of technical preparation and political negotiation. This should be the subject of phased implementation, with a realistic time-table.

5.3 **Physical infrastructure**

The principal infrastructure requirements for production integration are air transport, maritime transport, and telecommunications. It is self-evident, but needs reiteration, that the current facilities for air and sea transport are woefully inadequate.

Travel between Jamaica and Trinidad and Tobago, Caricom's two largest economies, takes up to twice as long as between Jamaica and New York City and six times the duration of the Trinidad-Venezuela trip. Travel between Guyana, where the Caricom Secretariat is located, and the western Caribbean, often requires an overnight stop en route. To travel to Belize and the Bahamas from other Caricom member states it is usually necessary to go via Miami. Such inconveniences constitute a serious obstacle to the frequency of business travel, which is a vital lubricating mechanism for intra-Caricom trade and investment.

Rationalisation of air transport in the region to better serve the needs of regional tourism as well encourage intra-regional "integration" travel has been the subject of discussion for some time. The matter was last considered at the July 1993 meeting of Heads of Government. Given the current efforts to privatise BWIA and Air Jamaica, it will be necessary to ensure that certain key "Caricom integration" routes are operated, even if at a loss initially, to facilitate business, cultural and recreational travel within the region.

The situation with maritime transport is equally problematic. Freight rates between the western Caribbean and the eastern Caribbean are considerably higher than between the western Caribbean and the U.S.A. Moreover, intra-regional cargo facilities are inadequate especially where the O.E.C.S states are concerned. The demise of WISCO has also robbed intra-regional trade of one of its only dedicated facilities. Resuscitation of this service and further improvement in the available facilities will be necessary in order to boost the volume of intra-regional trade which must accompany production integration.

Intra-regional telecommunications have improved considerably in the past decade. Massive investments have been made in the modernisation of plant and the installation of digital equipment. All Caricom states are now linked by direct distance dialling, and circuits appear to be adequate to handle the volume of traffic.

However, Caricom users have been slow to take full advantage of the potential of information technology available from the telecommunications infrastructure. Electronic mail is a powerful and relatively cheap means of linking networks of producers, producers and suppliers, and producers and customers,in different countries of the region. Development of data-bases with business information which provide on-line access to users throughout the region would also considerably increase the availability of information. More use of teleconferencing facilities could obviate the need for costly and time-consuming business travel, and increase the scope for trans-Caricom production integration.

5.4 The case for a Common Industrial Policy

5.4.1 Meaning and rationale of industrial policy

The case for a Common Industrial Policy (CIP) rests on the presumed inability of market forces, left to themselves, to induce forms of production integration leading to structural diversification with competitive efficiency. The inadequacies of the market system to promote production integration which were recognised in earlier integration schemes among developing countries have not disappeared, although the extreme forms of suppression of market forces (high protectionism and negotiated investment) are now seen to be costly and inappropriate. Within the context of the establishment of the Single Market and Economy, appropriate macroeconomic policies, and supporting infrastructure; it is anticipated that governments will still have a role to play in guiding and facilitating private sector activity in particular areas where production integration will improve productive efficiency and initiate new, internationally competitive activities. The critical issues relate to how these areas are to be selected, and how the policy is to be implemented.

In some quarters industrial policy is associated with government technocrats and planners "picking winners", and with a high degree of state intervention and regulation of the economy. It is evident, for reasons already outlined, that this approach to industrial policy is not suited to conditions in Caricom at the present time. We envisage a high degree of government-private sector interaction in the selection of areas for special support; with the private sector playing the principal **operational** role. The role of government should be to guide, facilitate and support private sector involvement in the areas concerned; and to monitor the implementation and progress of the entire process.

It is also argued by some that any government intervention is worse than no intervention; and the corollary, that government failure is always worse than market failure. This position cannot be verified by theoretical analysis; and empirically, it is contradicted by the experience of many countries, including Japan and the East Asian newly industrializing countries (Lall 1993; White 1988). As Lall has pointed out,

> The case for interventions to remedy market failures thus depends on three things: the nature (and the economic cost) of the market failures in question; the ability of the market to find its own efficient solutions; and, where market-based solutions are likely to be absent or inadequate, the ability of the government to design and implement correct solutions. To some extent, each may be a matter of degree: market or government failures may be partial rather than absolute. Each may also be dynamic, in the sense that the capacity of markets or governments to deal with their failures may improve (or deteriorate) over time. The particular constellation of failures and remedies may vary with country and period. The issues are ***empirical rather than theoretical***, though much of the debate has been conducted in such ideological and general terms that it appears that fundamental issues of principle are involved. The heat and dust generated have tended to obscure an understanding of the real nature of industrial development and its policy requirements. (Lall 1993, p.3)[3]

A comprehensive empirical evaluation of market failures in Caricom, and of the ability of governments in the region to design and implement correct solutions, is beyond the scope of this Report. Hence proposals regarding a Common Industrial Policy are, necessarily, tentative. In addition, we would argue that there is

[3] Lall, Sanjaya 1993. "Industrial Policy: A Theoretical and Empirical Exposition", Paper presented at the Conference on Industrial Policy and Caribbean Development, University of the West Indies, Trinidad, October.

White, Gordon (ed.) 1988. **Development States in East Asia**. London: MacMillan in association with I.D.S., University of Sussex.

a social "learning curve" that applies to the formulation and implementation of industrial policy, in which effectiveness should improve as a function of cumulative experience.

Below we review some of the principal kinds of market failure which are likely to be operative in the Caricom context, which establish an **a priori** case for a industrial policy.

5.4.2 Divergence of social and private costs and benefits

The price system may not yield the desirable pattern of trade and development if money cost does not reflect social opportunity cost. The money cost may be less than social cost; for example, if the cost of banana production does not include the effects of pesticides on the drinking water supply, there can be over specialization in the production of bananas. Similarly, if money returns are lower because the positive external benefits are ignored, then the output of the industry would be lower than desired. Divergences between money cost and social cost may arise from:

(1) **Unemployment.** When there are unemployed resources the social benefit of employing them or the social cost of leaving them unemployed are not taken into consideration by individual firms. The effects of increased unemployment on the crime rate and the consequent negative effects it may have on the tourism sector is one example. [The government, therefore, has to take these into consideration in the design of an industrial policy.]

(2) **External economies and diseconomies.** These are sources of cost reduction and cost increases respectively which result from effects outside of the individual firm/producing unit, but are internal to the industry. The example of the use of pesticides in the banana industry is illustrative of external diseconomies. External economies may arise from the establishment of joint distribution channels in export markets if production increases by the industry as a whole warrants it. This would not be taken into the cost calculus of the individual firm.

(3) **Infant industry considerations.** The poor performance of protected infant industries has understandably led to protection fatigue in many less developed countries. However, the underlying constraints are still as valid today as they were three decades ago. The problem was, protection was offered as a panacea rather than addressing the constraints directly, which included access to capital,

incomplete information about markets, access to technology and technical know-how. An industrial policy will have to address these constraints directly.

(4) **Economies of scale.** Where exploitation of economies of scale are constrained by the size of small domestic markets there can be divergence between money cost and social opportunity cost. In these circumstances industrial policy would be aimed at breaking into international markets to permit the exploitation of such economies.

(5) **Foreign exchange shortages.** The shortage of foreign exchange and its consequent rationing creates all sorts of distortions which can cause the divergence between money costs and social opportunity costs. This may be an argument for the liberalization of the foreign exchange market but this also brings with it another set of social problems resulting from the adjustments in the market. The authorities will have to decide, based on their social preferences, whether to persist with controls in the foreign exchange market and address the consequences via industrial policy or remove the distortions by liberalization.

(6) **Fiscally induced price and cost distortions.** The effect of taxation on economic activity is most often non-neutral. It may result in severe price and cost distortions. For example, many of the Caribbean economies have foreign exchange taxes in place which have an anti-export bias and may limit the movement of capital. The simple answer would be to reform the tax system to make it less distortionary and create neutral status with respect to export and import competing sectors. However, this may be a very difficult exercise in the short run for smaller economies in the region with small tax bases and limited tax administration capabilities. In the short run these distortions can be addressed by appropriate industrial policy until the changes in the tax structure can be effected.

In addition to divergences between money costs and social opportunity costs, there are some other considerations, most of them of an institutional nature, which would cause the market mechanism not to yield the desired results. They include: information deficiencies, non-tariff barriers in export markets, underdeveloped financial markets, the production of sensitive goods, the orientation of the traditional private sector, and environmental considerations.

5.4.3 Information deficiencies

Information is the oil that lubricates the modern international economy. The economic agents which can acquire the most of the relevant information and use it effectively hold the key to economic success. The Caribbean countries have been slow to appreciate this fact. Information on the technology of export marketing which is essential for success in the dynamic and increasingly competitive international markets is severely deficient in the area. Thus, in the market place where the use of information is paramount the region acts with incomplete information.

The paucity of knowledge about export markets is a significant obstacle to export development. Basic information regarding the structure of markets, changes in taste, import regulations in the foreign country, appropriate technology, new processes, new products and potential competitors, has to be assembled.

Clearly then, one aspect of the industrial policy of the region would be to put the infrastructure and mechanisms in place to facilitate the rapid acquisition and assimilation of information. This need is most critical in the area of production, market intelligence and the capacity to interface with international networks. Tapping into international producer and market information networks would reduce significantly the cost of gathering market intelligence. This is an area where very significant external economies may arise and a regional approach would be most effective.

5.4.4 Non-tariff barriers

The existence of non-tariff barriers in export markets, especially in the United States, can be a significant constraint on the achievement of a desirable pattern of trade and development via operation of free market forces. Caricom exports, especially of agricultural products, face a myriad of regulations which only experience in the markets can help to get around. Moreover, the various lobbies swing into action as soon as there is the perception of a threat even from very small producers whose effect in reality is inconsequential. Government assistance to exporters to develop the market has often been construed as unfair competition and invites counter-availing measures. These include the provision of infrastructure, technical assistance, export credit and research and development grants.

5.4.5 Underdeveloped money and capital markets

The underdeveloped nature of the money and capital markets in most of the Caricom countries does not facilitate the requisite financial engineering to encourage the emergence of strong regional firms. This, coupled with the lack of uniformity of the company laws, would frustrate the efforts of production integration. Thus policies to encourage the development of more creative modern financing methods would have to be developed.

5.4.6 Mercantile bias of entrepreneurship

The traditional orientation of the major part of the private sector in the Caricom countries has been in mercantile endeavours. This is not inherently good or bad. What matters is what is done with the wealth created in these activities. Where the market is given full reign there can be a tendency for the wealth created in the distributive sector to create further expansion in this sector at the expense of the export sector. An industrial policy would have to offer powerful incentives and opportunities to break centuries of tradition to diversify out of distributive activities.

5.4.7 Environmental considerations

In recent years the world has become more aware of the negative effects of economic development on the environment. Unplanned exploitation of natural resources in the past have wreaked havoc on the environment. It is clear that future economic development must not be at the expense of environmental degradation. As the World Bank World Development Report, 1992 points out, protection for the environment is inextricably linked with development so that efforts at economic expansion will need to take place within a framework of environmentally sustainable approaches. This is especially so in tourism where much of the development in the Caricom countries takes place in the ecologically fragile coastal zones. The same caveat applies to exploitation of marine and land resources. Over-fishing and agricultural production in unsuitable areas in any one period can ruin the economy and the quality of life in any of the countries. In these circumstances the free market cannot be relied on to achieve the desirable social result.

Most of the detractors who argue against industrial policy recognize the case for targeted intervention based on market failure; nevertheless, they argue that government cannot be trusted to make only limited intervention, thus it is better to leave it alone. But there is some softening of the position when it concerns the environment and `market friendly' solutions are recommended. Clearly, there is a case for an industrial policy in all economies and even more so in developing economies. However, it should not be aimed at frustrating the working of the market but at enhancing its efficiency. The industrial policy must also be flexible, subject to frequent review, and be reversible if it is not achieving its objectives. The reversal of bad policies would require great fortitude on the part of the authorities.

5.5 Considerations in the formulation and implementation of a Common Industrial Policy

5.5.1 General observations

In moving towards a Common Industrial Policy, several observations should be made at the outset. The first is that in its essential meaning, an industrial policy can apply to agriculture and to tradeable services (such as tourism), and not merely to "industry" in the narrow sense of manufacturing and mining. In Caricom this is important, since many of the activities believed to have good long-term export prospects may not be traditional "industrial" activities.

Second, there are **implicit** as well as explicit industrial policies. Any set of government support policies for investment and production activities which are, by their nature, selective and/or discriminatory in their effect, can be said to constitute an implicit industrial policy; whether or not these are formally articulated as such by policy-makers.

The third observation follows from the above. It is clear that, in spite of current trends towards policy liberalisation and deregulation, Caricom governments continue to operate implicit industrial policies. Examples of the provision of special government support for selected economic activities are:

- political lobbying in external markets on behalf of particular exports, such as bananas and apparel;
- budgetary support for agencies devoted to industrial development, tourism promotion, and export promotion;
- fiscal incentives for particular sectors;
- industry-specific and firm-specific subsidies;
- development financing facilities targeted at particular kinds of activities; and
- vocational training for particular industries.

Hence, we would argue that one of the first steps to be taken in formulating a CIP will be to review the entire range of implicit industrial policies among member states in the region as regards their targets, their content, and their institutional arrangements; to analyse them as regards internal consistency and overall coherence within each economy and among them; and to make recommendations for a coordinated set of policies aimed at promoting production integration in areas where this will enhance structural diversification with competitive efficiency[4]. This coordinated set of policies constitutes a crucial building block of a Common Industrial Policy.

It follows from this that such a Common Industrial Policy necessarily implies some compromise between the national interests and preferences of member states on the one hand, and a negotiated, collective Caricom position on the other hand. As this tension was one of the chief obstacles to the effective implementation of the old CIPS and the Industrial Allocation Scheme, its force should not be underestimated. It puts a primacy on the importance of political will, negotiating skills, and willingness to compromise, among the representatives of member states.

The final observation relates to the **style** of industrial policy-making. Insofar as the conduct of industrial policy involves strong interaction between government and the private sector, it means that equal attention will need to be paid to dialogue, consultation and consensus-building as to the purely "technocratic" aspects of policy determination. This also applies to relations with the other social partners. As is shown below, an effective industrial policy requires not only a high degree of internal coherence and consistency in economic management, but also a high degree of social and political discipline, maintained over a time period long enough to make it work.

It can be questioned whether these conditions can be met in the Caricom context, either at the national or regional level. In addition to problems at the national level, member states of the Community have a poor record of implementing decisions aimed at strengthening the integration process, which imply some sacrifice of the freedom to act at the national level.

The only feasible way of handling this problem is to build a **national and regional consensus** within the Community about the nature of the strategic imperatives for the region and the main sectors of economic activity which need to be encouraged. With consensus, governments and other social actors act in accordance with agreed decisions because they believe it is in their interest to so. The obstacles to consensus-building and maintenance are in now way being underestimated, but within a democratic framework no other route to coherence and social discipline is available.

Within this broad context, certain comments can be made about the technical issues involved in (i) selection of industries/

[4] The review of fiscal incentives within Caricom is one such.

activities, (ii) type of policy instruments, (iii) implementation, and (iv) monitoring, feedback and modification.

5.5.2 Selection of activities

Clearly articulated technical criteria should be developed for the selection of industries and activities for targeted support. These should be published in draft form and become the basis for consultation and dialogue, especially with the private sector. The procedure by which the final selection of industries is carried out should be transparent and such as to command public confidence and support. (Criteria are further discussed in Section 6 in the context of areas of production integration).

5.5.3 Policy instruments

Industrial policy instruments are by their nature industry-specific and activity-specific. In general, they can include any or all of the following:

(i) tariff policies
(ii) import policies
(iii) export promotion policies
(iv) credit policies
(v) foreign exchange policies
(vi) tax incentive policies
(vii) technology policies
(viii) manpower development policies
(ix) policies affecting the supply of other inputs.

Tariff policies provide a measure of protection from competing imports on the domestic market for selected industries, as a result of "infant industry" considerations. The aim is to foster the development of entrepreneurial and technological capabilities in firms which grow large enough to compete on world markets.

Import policies are of two kinds: (a) for competing imports, and (b) for imported inputs. Quantitative restrictions on competing imports may complement tariff protection policies. Selected industries may be allowed unrestricted importation of inputs on a duty-free or duty-concession basis as a form of incentive.

Export promotion policies provide special assistance to exporters in the selected industries to identify and access foreign markets. More details are provided in Section 6.

Credit policies provide preferential access to credit at preferential interest rates to firms in the selected industries, for working capital and fixed investment.

Foreign exchange policies provide preferential access to foreign exchange to finance imported inputs and essential foreign payments for firms in the selected industries. The foreign exchange may also be provided at a subsidised exchange rate.

Tax incentives provide relief from income (profits) taxes and sometimes from indirect taxes to firms in the selected industries. Income tax relief is normally of limited to a specific duration.

Technology policies (a) regulate the terms and conditions of technology transfer to firms in the selected industries in order to promote assimilation and diffusion of imported technology, and (b) subsidise Research and Development by firms as well as by the public sector, to promote innovation in the selected industries.

Manpower development policies (a) support public investment in training of scarce manpower in the selected industries, and (b) provide incentives and subsidies for training of scarce manpower by firms in the selected industries.

Policies related to the supply of **other inputs** such as factory space, power, water, access to port facilities, roads, etc., generally prioritise access at subsidised prices to these inputs for firms in the selected industries.

5.6 Effectiveness of implementation of industrial policy

The really difficult issues that arise with industrial policy are those of effectiveness and implementation. Several important considerations are relevant here.

First, industry policy instruments aim to steer entrepreneurship and investment into the selected areas by providing a **package** of measures that are available only to those areas. Their effectiveness derives from the **total** effect of the inter-related elements of the package, and from their discriminatory nature.

In the Caricom context, the decision on the CET and other measures taken under Structural Adjustment Programmes mean that protective tariffs and quantitative restrictions on imports are not available as principal policy instruments. Subsidised credit is also disapproved by the current orthodoxy of the multilateral institutions, as Jamaica's experience shows. So is the regulation of technology imports. Foreign exchange liberalisation in three of the MDCs will dilute the effectiveness of preferential access to imported inputs and foreign exchange.

At the outset, therefore, the proposed Common Industrial Policy would have available to it only those policy instruments allowed by current policy regime and the policy conditionalities, viz.:

(i) export promotion policies

(ii) credit policies, (subject to difficulties with differential interest rates)

(iii) tax incentive policies

(iv) technology policies to subsidise R&D and promote innovation

(v) manpower development policies, nationally and at the firm level

(vi) policies affecting the supply of other inputs.

The extent to which these instruments alone can stimulate the desired flow of capital and entrepreneurship into the selected industries is not clear. In any case, the Community as a whole as well as member states will need to consider the renegotiation of current policy conditionalities of the international lending agencies, with a view to amplifying the room to maneouvre to implement a regional industrial policy.

Next, it should be pointed out at effective policy instruments have often combined the "carrot" and the "stick" approach, wherein continued access to favourable treatment is conditioned on performance. In the South Korean version, individual firms were set specific export targets and failure to fulfill these targets resulted in loss of preferred supply of inputs, subsidised credit, etc. Hence, current neo-liberal orthodoxies which rule out this degree of detailed state management will also need to be reconsidered.

Finally, the success of industrial policy presumes a favourable supporting macro-economic environment and efficient infrastructure. These are similar, if not identical, to those required for production integration.

In summary, the effectiveness of industrial policy can be undermined by factors that have nothing to do with the effectiveness of specific policy instruments. Chief among these are (i) failure to include certain vital elements in the total package of policies, (ii) failure to include effective sanctions for non-performance, and (iii) an inappropriate and inconsistent macro-economic environment.

5.7 Industrial Policy and the Caribbean Industrial Programming Scheme (CIPS)

CIPS was an attempt at fairly detailed industrial programming with a substantial government involvement in the promotion and ownership of enterprises. As pointed out in Section 2, the implementation record of CIPS is poor, and emphasis on government initiative is somewhat out of date in the current policy environment.

CIPS, as a scheme, should no be abandoned, and replaced by a Common Industrial Policy (CIP). CIP will consist of the selection of indicative areas for production integration including functional cooperation, on the basis of agreed criteria and through private-public sector consultation and dialogue; implemented by means of government targeted intervention (policy instruments) aimed at steering private sector involvement in the selected areas. Accordingly, institutional changes at the Secretariat will be necessary, but these are outside of the scope of this study.

5.8 Conclusions

This Section has discussed the four principal elements of the framework for production integration in Caricom: provision of an appropriate and stable macro-economic environment; establishment of the Caricom Single Market and Economy (CSME); provision of an adequate physical infrastructure; and implementation of a Common Industrial Policy (CIP). Supporting measures were outlined, especially for the CSME and the CIP.

The conclusion is that Caricom will need to place greater reliance on market forces **and** on government intervention in bringing about production integration in the region. This apparent paradox comes about because of the urgent necessity to complete the Single Market and Economy as the framework for private sector involvement in production integration on the one hand, and the need for targeted government intervention in a regional context to support such involvement, on the other hand.

6. AREAS OF PRODUCTION INTEGRATION AND SUPPORTING MEASURES

6.1 Identification of areas for production integration

In identifying areas for production integration, the following criteria are suggested:

(i) production integration should be promoted in sectors and activities where it can contribute to the objective of **structural diversification** with **competitive efficiency**;

(ii) for these purposes, the selection of areas should be made from the entire spectrum of **tradeable goods** and **services**, and **ancillary services** which support these;

(iii) production integration should be organized principally by the **private sector**, but strong **government support** will be required;

(iv) production integration can take the form of **integrated production**, **complementary production**, or **functional cooperation**; and

(v) a variety of **institutional forms** are available as a vehicle for production integration; the form chosen should be appropriate to the job to be done.

These criteria are recommended for use as guidelines for the identification of **indicative** areas for production integration. They are not proposed for use as a basis for detailed industrial programming. Identification of indicative areas should form the basis for strong public-private sector dialogue aimed to determine the feasibility of private sector activities, and the kind of government supports that will be most appropriate.

In addition, possible areas for production integration can be inferred from the behaviour of the private sector itself. Greater reliance on market-led production integration is predicated on the assumption that establishment of the Single Market and Economy, a harmonized macro-economic environment, and improvements in the regional physical infrastructure, will stimulate greater private sector interest in regional trade and investment. By closely observing these trends, public officials can learn a great deal about where the greatest possibilities for production integration lie.

6.2 Production integration: goods

In discussing possible areas for production integration in goods, we review the traditional export sector, non-traditional agricultural exports, agro-industry, and furniture and wood products.

6.2.1 The traditional export sector

The traditional sector (sugar, bananas, other agricultural exports, bauxite, petroleum) has a considerable tradition of functional cooperation. In the sugar industry, West Indian producers have collaborated in Research and Development, and governments have collaborated in external market negotiations. Regional collaboration in agricultural research has been effected through CARDI, and through the Faculty of Agriculture at the U.W.I. (formerly the Imperial College of Tropical Agriculture). Some collaboration in bauxite matters has been done through the International Bauxite Association.

One of the best examples of the value of functional cooperation is provided by the experience of the Windward Island Banana Producers Association, WINBAN. As shown by Derne et al (1992), functional cooperation in WINBAN has been highly successful in the development of export markets, export price negotiations, production scheduling (which comes close to approximating complementary production), purchase of inputs, quality control, R&D, and crop insurance. Cooperation has been facilitated by a number of favourable circumstances: the non-seasonal nature of the crop, the existence of a single buyer (Geest) who provides transport and marketing services, and the geographical proximity and cultural similarity of the four islands.

This model may be applied to wider cooperation in production in seasonal products. The infrastructure and institutional arrangements developed for bananas would be utilized for the production and exports of fruits and vegetables, within a framework of identified seasonal rotation of products. Geest's shipping facilities would be utilized more efficiently: excess cargo capacity would be reduced and high-speed ships could be more efficiently used for fruits that are more perishable than bananas. In this case, however, the producers should seek to retain some control over marketing and distribution.

We recommend that efforts at functional cooperation in the traditional export sector be maintained and intensified, with particular emphasis on R&D for increasing productive efficiency and for new product development.

6.2.2 Non-traditional agriculture

This sector covers a wide range of crops, but the principal groups are horticultural products and orchard crops. The principal constraints to expansion are market information, marketing skills and access to distribution channels, technical information and technical skills related to production and management. Functional cooperation in marketing and export promotion could assist producers by the pooling of market intelligence, promotional efforts, and supply capabilities. Export marketing companies could route orders to particular suppliers, monitor market trends and advise producers on these. Exchange of technical information, and collaboration in R&D could also strengthen the technical base of production.

6.2.3 Agro-industry

Agro-industrial activities lend themselves to all three kinds of production integration. This is a sector in which there has been some local development of production capabilities and entrepreneurship. Some member states, e.g. Guyana and Belize, are relatively well endowed with land resources, but have small populations and domestic markets, and limited agro-industrial development. Development of production capabilities and entrepreneurship is relatively well advanced in the MDCs, where markets are also larger.

A potential for integrated production therefore exists, organized by MDC firms by means of direct investment or joint ventures in the land-rich countries. The example of the St. Vincent rice milling firm which invests in rice production in Guyana has already been given. Some large Jamaican agro-industry firms (Grace, Kennedy and WYSINCO) are directly investing in Guyana for the supply of inputs. Several Trinidadian firms are preparing to do the same.

Small-scale agro-processors stand to benefit from both complementary production and functional cooperation in penetrating export markets. Exotic products such as condiments, spice-based products, etc., often require a capacity to fill large orders in a limited time. Examples abound of small producers who have lost important export market opportunities because they were unable to fill large orders. Complementary production, with centralized quality control, packaging, brand name promotion and marketing, would be one answer to this need.

6.2.4 Furniture

The paper by Derne et al (1992) suggests that the furniture sector could be another area of production integration within Caricom (and possibly in the wider Caribbean). Possibilities exist for backward integration to wood production and sustainable forestry, and there is a great need for functional cooperation in design, quality control, product development, and export promotion.

The paper argues that the wider Caribbean can be divided into four groups of countries, each with different capabilities in the industry and with a specific set of specialization possibilities:

Group I Countries: the location of the majority of the forestry resources and the main suppliers of wood products (Guyana, Suriname, Cayenne and Belize). These could concentrate on increasing the level of exploitation on the basis of sustainable forestry, with greater primary transformation into processed or semi-processed wood for export to other Caribbean countries;

GROUP II Countries: with established furniture industries based mainly on imported processed wood (Barbados, Cuba, Dominican Republic, Jamaica, St. Vincent and the Grenadines). These have little potential for further forestry exploitation and further furniture industry development should be based on imports, much of which could be from Group I countries;

Group III Countries: where sawmill imports are less important and furniture production is based partially on local processed wood, but which have less than 5 percent of the region's forestry resources (St. Kitts, St. Lucia, and Trinidad & Tobago). Some forestry development would be feasible, but supplemented by imports; and

Group IV Countries: with large domestic markets for furniture but limited forestry potential (Bermuda, British Virgin Islands, Cayman Islands, Guadeloupe, Martinique, and Puerto Rico). In these countries intensive furniture manufacture can be developed based on imports from Group I and Group III countries.

The suggested pattern of specialization would lend itself to both integrated production and complementary production, by means of direct investment, joint ventures, and industrial complementation arrangements. Governments would have to implement a coherent policy for sustainable forestry development, and liberalization of trade in wood products and furniture. Governments would also have to take the initiative in organizing functional cooperation in export promotion. Such cooperation is already being done for the O.E.C.S. states by the Eastern Caribbean States Export Development Agency (ECSEDA); but widening of cooperation is necessary if the region is to be able to meet the formidable competition from the Far East.

6.3 Services

Several factors point to the need to consider services as a potential area of production integration. To begin with, service industries are a major part of economic activity in all of the Caricom economies; the contribution to GDP ranges from 52 percent in Guyana to 93 percent in Antigua and Barbuda. Tourism is a significant proportion of this, and is now the largest single foreign exchange earner in Caricom.

Secondly, many services are in fact inputs into goods producing industries, and the cost and efficiency of their provision affects costs and efficiency in the latter. Globally it is estimated that about 50 percent of the production of services becomes an input into other industries; and of this two-thirds is used by other service firms and one-third by goods producing firms. The increasing importance of an adequate and efficient telecommunications infrastructure to international competitiveness is the latest expression of this phenomenon.

A third set of factors has to do with the growing importance of services in international trade and export performance. International trade in services has been growing at a higher rate than trade in goods. Technological developments in telecommunications and informatics have rendered many previously "residentiary" services internationally tradeable, such as data processing and architectural services. International trade liberalization is now being applied equally to services as to goods. Service industries that are now the subject of international negotiations include:

Construction
Utilities
Telecommunications
Transportation and storage
Wholesale and retail trade
Finance (banking and insurance)
Real estate
Business services
Education
Health
Culture
Personal services
Hospitality services (tourism)
Public administration

Such developments open up new opportunities for export services for Caricom producers; but they also mean that service firms which previously enjoyed a "natural" or legal monopoly on the home market will encounter growing competition from foreign providers.

The scope for production integration in services to contribute to structural diversification with competitive efficiency will be illustrated with reference to tourism, finance, and support services.

6.3.1 **Tourism**

This sector, which is now the largest single foreign exchange earner in Caricom, is suitable for several kinds of production integration. Already, locally-owned "all-inclusive" hotel chains are spreading from Jamaica to other parts of Caricom, and to Cuba. This represents a form of horizontal integrated production in which the producer seeks to exploit his firm-specific competitive advantages over several locations. These hotel firms have been active in pressing for the Single Market and Economy in order to have access to the entire pool of skilled labour in their region, and for inter-governmental cooperation in dealing with cruise ship tourism.

Cooperation in tourism promotion is discussed under 6.4.3 below. The area of training is also a form of functional cooperation in tourism. This now occurs at the level of hotel management, through the university of the West Indies degree programme located in the Bahamas.

6.3.2 **Finance**

Existing private sector interest provides indication that the financial sector could be a significant area of production integration. Finance has been one of the fastest growing sectors in international trade and investment, and in recent years the sector has seen substantial growth in the Caricom MDCs. Large locally-owned financial conglomerates have emerged with considerable financial assets and management capabilities, capable of international operation. Some of these (e.g. the Mutual Security/NCB Group in Jamaica) have shown interest in spreading from Jamaica and Trinidad & Tobago to other parts of Caricom, and to metropolitan countries with Caribbean populations. Regional operation by these firms, a form of horizontal production integration, will further strengthen their asset base and management experience and hence their ability to compete with extra-regional firms in regional and global markets.

Finance has also been the subject of inter-governmental functional cooperation. The multilateral clearing facility was an important instrument facilitating intra-regional trade until its breakdown in the 1980s. A formal mechanism for cooperation and consultation among central banks exists, but this has not proven effective in facilitating intra-regional payments since the collapse of the MCF. An adequate payments mechanism must be at the top of the agenda, as a basic element of the Single Market and Economy, and lubricating mechanism for production integration.

6.4 Ancillary services

Ancillary services are those which assist individual producers to improve the efficiency of their operation and the quality and range of their products, and with developing and servicing their markets especially overseas markets. They are crucially important to the attainment of structural diversification with competitive efficiency, especially in non-traditional merchandise exports. A special study was undertaken for this report on the state of development of the institutions providing these services in Caricom and the scope for production integration. This will be discussed in terms of the classification into Type 1 and Type 2 Services.

Type 1 Services relate to the improvement of efficiency and product quality, and product innovation, at the enterprise level. They provide product, process and organizational technology as follows:

(i) **Product technology.** Know-how on product specifications; assistance in the adaptation and modification of product specifications and characteristics to suit the local market and resource base; assistance in product quality enhancement; assistance in product innovation.

(ii) **Process/plant technology.** Provision of engineering-type services for choice or modification of plant/process technology in order to achieve optimum operating efficiencies and improve productivity and quality, thereby reducing unit costs; provision of new process know-how for innovation.

(iii) **Organizational technology.** Provision of advice on production organization and flow, (e.g. using techniques of Operations Research) to improve productive efficiency and minimize waste; advice on management and organization to achieve the most cost effective organizational structure.

These services are of particular value to small and medium sized enterprises which lack the resources to provide them in-house; cannot purchase them at "full-cost" prices; or have limited awareness of the importance of process, product, and organizational technology to successful performance.

Type 1 ancillary services in Caricom member states are provided principally by public sector Science and Technology (S&T) and Research and Development (R&D) bodies; and by private firms engaged in engineering and management consultancy. The scope for cooperation/integration can be assessed for each group.

6.4.1 Public sector S&T and R&D bodies

i. National/regional S&T bodies

Several countries have national S&T-type bodies whose responsibilities may include advising Government on S&T policy, coordinating the national S&T effort, and sponsoring S&T research. Examples are Jamaica's Scientific Research Council (SRC) and recently established National Commission on Science and Technology (NCST); Trinidad & Tobago's National Institute for Higher Research, Science and Technology (NIHERST); and Guyana's Institute for Applied Science and Technology (IAST).

Insofar as their national policy-making or coordinating role is concerned, these bodies do not actually provide services at the enterprise or industry level. However, they are relevant to our discussion to the extent that they impact on the provision of such services. Regional collaboration among such bodies is effected mainly through the Caribbean Council on Science and Technology (CCST), which is sponsored jointly by UNESCO and the ECLAC Caribbean Office. However, the record of these entities either in affecting the national S&T effort, or in regional cooperation, has been disappointing so far. This is attributable to their limited financial and technical resources low commitment on the part of governments, and little connection with the productive sector. These weaknesses will need to be addressed before useful regional cooperation can be achieved.

ii. Public sector technology institutes

These are agencies which engage in product and process research under laboratory conditions, sponsor such research, and provide technical advisory services to producers. Some are attached to the national S&T bodies discussed above, while others are attached to sector Ministries or industrial development agencies. They are mostly industry-specific and concentrated in the agricultural, agro-industrial, and mining sectors. Sugar, bananas, cocoa, domestic food crops, livestock, food-processing, clay, and building materials are some of the sub-sectors in which these institutes are found. An illustrative listing is provided in Table 6.1.

On the face of it, these institutes would benefit from regional cooperation by the exchange of technical information and of research results, and agreed specialisation of effort to avoid duplication and to utilize scarce resources more productively. So far, very little cooperation of this kind has been attempted or accomplished. Many have suffered from the instability of public funding, frequent changes in policy, and high staff turnover. A major problem encountered by many is the limited transfer of research results to production. Generally, public sector R&D institutes need to forge close relationships with private sector producers and to find ways and means of making their efforts "demand-driven" by the needs of producers. Provided these issues are addressed, the scope for regional cooperation among these bodies in specific functional areas should be examined.

6.4.2 Private sector engineering and management consultancy firms

By their nature, these organizations impact more directly on operation sat the enterprize level. Although formerly oriented mainly to management consultancy, an increasing involvement is evident in product development and process modification for the improvement of price-competitiveness, and product quality and marketability. They also cluster in the primary and secondary industries, although their skills are increasingly relevant to the service industries. A sample listing is given in Table 6.2.

Agricultural consulting firms are fairly widespread, with at least one in each member state. Many are associated with the distribution and sale of agricultural inputs to farmers, providing their advisory services free of charge. This is not an ideal form of consultancy, though some useful information may be provided. Others are straightforward consultants providing their services on a fee-paying basis, and including management and organizational advice. No significant regional linkages among such firms were found. Linkages in the form of joint ventures, and associations formed for specific projects, should be encouraged as a means of taking advantage of synergies.

Numerous **engineering consultant firms** are to be found in the region, providing services in the electrical, mechanical, and civil/structural engineering field. They provide advice and supervision in plant construction, installation of machinery and equipment, and sometimes in plant and equipment modification. A major weakness found in the study of these firms was the absence of expertise in overall plant and process design. Producers therefore depend on machinery suppliers for advice in this area, and do not have access to services to assist in the choice of technology relevant to local conditions. Another deficiency was in the availability of advice in Operations Research in relation to production scheduling, process optimization, inventory models, and waste control.

Some of the engineering consultancy firms were found to have branches across several countries in the region. Consulting Engineering Partnerships Ltd. has branches in Trinidad & Tobago, St. Vincent, St. Kitts/Nevis, Grenada and Dominica, while AdeB Consultants Ltd. has branches in Jamaica, Trinidad & Tobago, Barbados, and St. Kitts/Nevis. This indicates the potential for horizontal production integration in the engineering industry. However, the deficiencies in plant and process design engineering, and/OR type services, need to be addressed by means of joint action of the public sector and the engineering firms.

Management consultancy firms are found everywhere in the region. Production integration is also evident in this sub-sector in that some firms operate in several countries, including TNCs such as Coopers and Lybrand, while some serve the entire region from one location. These firms also tend to be confined to financial and general business management, providing few services related to improvement of shop floor productive efficiency.

6.4.3 Export promotion services

Type 2 Services are those which assist producers in the effective promotion, marketing and distribution of their products or services. They are provided mainly by export promotion agencies, export marketing organizations, and export sales and distribution organizations.

Export promotion relates to identifying the needs of the market; encouraging the development of the appropriate product or service to meet the requirements of the market with respect to tastes, preferences, health standards and other regulations; targeting the correct market niche; and promoting the product or service in that niche. Services provided to producers, especially small and medium enterprises, would include:

- market research and information
- information for new product development
- product design and development information
- assistance in ensuring quality consistency
- assistance to ensure reliability of supplies
- information on standards, regulations, and other requirements
- assistance with customs documentation and procedures.

Export promotion agencies in the region are usually public sector bodies, and are sometimes linked to investment promotion. The main organizations are listed in Table 6.3. National bodies exist in Jamaica, Barbados, and Trinidad & Tobago. Integration of these services can be found in the form of ECSEDA, which serves the OECS countries as a whole, and the Caricom Export Development Project (CEDP).

CEDP was established to assist the public and private sectors of Caricom and Suriname to expand regional trade and extra-regional exports, with the provision of training, information, marketing, advisory, and export promotion services. It is also responsible for the promotion of the Caricom Single Market. Since CEDP provides services to the private sector as well as to the national export promotion agencies, there is some amount of overlapping of functions with the latter. This may require some examination.

A potentially powerful service provided by CEDP is the Caribbean Trade Information System, (CARTIS). This is a computerized network which links the trade information units of Caricom member states and also accesses overseas data bases. The nodes of the network are located in national export or investment promotion agencies, ministries of trade, and business associations. The system provides a wide range of trade and market intelligence information of value to the national agencies and individual producers. It constitutes an example of functional cooperation in export promotion which may have considerable value in the future.

Collaboration in export promotion in the services sector occurs with tourism. The Caribbean Tourist Organization is a joint public/private sector body whose membership includes Caricom and non-Caricom states. The CTO conducts research and advises its members on tourism strategies, and functions as a public-private sector liaison body and policy advisory/lobby group with governments at the regional level. It has recently received funds from governments to promote the Caribbean as a single destination in the world tourist industry, an important strategic development. The CTO also coordinated the move to press governments to adopt a single uniform head tax of US$15 on the cruise ship industry.

There are other service industries with an export potential which would benefit from promotional support both at the national and the regional levels. This is the case for off-shore (international) business, financial and accounting services, business consultancy, software development, data and information processing, informatics and other computing services.

6.4.4 <u>Export marketing and sales services</u>

Export marketing services assist producers by providing

- market surveys and feedback information
- demand studies
- determination of appropriate pricing structure for each market, and
- specially targeted advertizing materials such as ad

slicks, brochures, direct mail marketing, TV info-mercials, and other techniques of persuasion.

Export sales and distribution services relate to the actual placement of the good or service in the hands of the customer. Services provided include

- trading companies - purchase from producers for re-sale to customers
- warehousing facilities - a critical need for the servicing of extra-regional markets
- order-taking and distribution of goods to wholesalers and retailers
- direct wholesaling or retailing.

These services respond to a critical need of small and medium sized enterprises seeking to penetrate extra-regional markets with non-traditional exports. A listing of public and private sector organizations providing such services is given in Tables 6.3 and 6.4. Our finding is that they are few in number, dispersed spatially across the region, and not necessarily geared towards small producers. No instances were found of inter-country cooperation, or cross-country operations, by these organizations. The conclusion is that the needs of small and medium producers for these services are not adequately served, and that this must constitute a serious constraint on the expansion of exports from this group of producers.

Small and medium producers in non-traditional agriculture, agro-industry, crafts, garments etc., would benefit tremendously from the development of these services and from some degree of integration of them across the region. Integration could take the form of cooperation among public sector companies, establishment of subsidiaries in two or more countries by private sector export trading companies, private joint ventures in trading and marketing, and joint use of common external facilities such as warehousing and distribution services.

6.5 Conclusions

Indicative areas for production integration can be identified by the use of criteria derived from the strategic objective of promoting structural diversification with competitive efficiency, with a leading role of the private sector in organizing and operating integration activities and strong supporting role of the state. The areas identified for discussion were the traditional agricultural sector, non-traditional agriculture, agro-industry, furniture, tourism, finance, and ancillary services. The evidence reviewed is suggestive of the scope for the application of forms of production integration in enhancing efficiency and export capabilities.

Table 6.1

Type I Ancillary Services in Caricom: Public Sector R&D Bodies

Country	Name of Body	T1	T2	T3
Barbados	Agricultural Development Corporation	x		
	Barbados Investment & Development Corp.		x	x
	Barbados National Standards Institution	x	x	
Guyana	Guyana Manufacturing & Industrial Development Agency		x	
Jamaica	Scientific Research Council			
	Agric. Development Corporation	x		
	Sugar Industry Authority	x		
	Jamaica Promotions Corporation (JAMPRO)		x	x
	Bureau of Standards	x	x	
Trinidad & Tobago	NIHERST			
	T & T Industrial Development Corp.		x	
	T & T Bureau of Standards	x	x	
O.E.C.S.	East Caribbean States Export Development Agency (ESCEDA)		x	x
	Industrial Development Board (Antigua & Bar.)		x	
	National Agric. Corp. (St. Kitts/Nevis)	x		
	Caribbean Development Corp. (St. Lucia)		x	
	St. Vincent Development Corp.		x	
	Agricultural Station (Dominica)	x	x	
	Produce Chemists Labs			
	Grenada Industrial Development Corp.		x	
	St. Lucia National Development Corp.		x	x
	Dominica National Development Corp.	x	x	x
Belize	Office of Econ. Development		x	
Bahamas	Bahamas Agric. & Indus. Corporation	x	x	

Notes:

T1 = Service provided to primary industry

T2 = Service provided to secondary (manufacturing) industry

T3 = Service provided to tertiary (service) industries

Table 6.2

Type I Ancillary Services in Caricom:
Selected Private Sector Firms

Country	Name of Selected Firm	T1	T2
Antigua/ Barbuda	Caribbean Agricultural Extension Project Geotech Associates	x 	 x
Bahamas	Caribbean Agribusiness Holdings GAH Engineering	x 	 x
Barbados	Agricultural & Management Consultants Sugar Technology Research Unit A de B Consultants Ltd.	x x 	 x
Belize	Alpha Management Services Associated Engineering Services	x 	 x
Dominica	Caribbean Farmer & Development Co. Ltd. Consulting Engineers Partnership Ltd.	x 	 x
Grenada	Renwick Thompson & Co. Ltd. Consulting Engineers Partnerships Ltd.	x 	 x
Guyana	Bel Park (Guyana) Agencies Rafferty's Engineering Service	x 	 x
Jamaica	Sugar Industry Research Institute A de B Consultants Ltd.	x 	 x
Montserrat	N/A		
St. Kitts/ Nevis	A de B Consultants Ltd.		x
St. Lucia	Carib. Agric. & Development Consultancy Ltd. Caribbean Consulting Engineers	x 	 x
St.Vincent	Paget Farm Clinic Consulting Engineers Partnership	x 	 x
Trinidad & Tobago	Agricultural Consultancy Services Ltd. A de B Consultants Ltd.	x 	 x

Notes:

T1 = Agricultural Consultants
T2 = Engineering Consultants

Table 6.3

Type II Ancillary Services in Caricom: Public Sector Bodies (Promotion/Marketing/Sales)

Country	Name of Organization	T1	T2
Bahamas	Ministry of Tourism	x	
Barbados	Barbados Investment & Development Corp.	x	
	Barbados Tourism Development Corp.	x	
	Barbados Marketing Corp. (BMC)		
Belize	Belize Tourist Board	x	
Guyana	Guyana Export Promotion Bureau	x	
Jamaica	Jamaica Promotion Corp. (JAMPRO)	x	
	Jamaica Export Trading Corp. (JETCO)		x
	Jamaica Tourist Board	x	
O.E.C.S.	Eastern Carib. States Export Dev. Agency (ECSEDA)	x	
	Dep'ts of Tourism (Grenada, St. Vincent)	x	
	Tourist Boards (Dominica, St. Kitts, St. Lucia)	x	
	Grenada Export Promotion Bureau	x	
Trinidad & Tobago	T & T Export Development Corporation	x	
	T & T Tourist Board	x	
REGIONAL	Caribbean Tourism Organization	x	x
	Caricom Export Development Project (CEDP)	x	

Notes:

T1 = Supplying Promotion/market research Services

T2 = Supplying Sales/Distribution Services

Table 6.4

Type II Ancillary Services in Caricom: Selected Private Sector Firms

Country	Name of Firm	T1	T2
Bahamas	British American Marketing Services	x	
	Import/Export Trading Co. Ltd.		x
Barbados	Marketing Specialists (Caribbean) Ltd.	x	
	Caribbean Agricultural Trading Co. Ltd.	x	
	Export Traders (B'dos) Ltd.		x
Belize	Universal Import/Export Ltd.		x
Guyana	JFB Marketing & Promotions	x	
	Eagle Import/Export		x
Jamaica	Market Research Services Ltd.	x	
	Industrial Commercial Developments Export Ltd.		x
O.E.C.S.	GAR-EXPO Co. (Miami)		x
	Dominica Export/Import Agency (DEX)		x
	Dominica Banana Marketing Corp.		x
	International Import/Export (St. Lucia)		x
	Pacific Rim Marketing Ltd. (Anguilla)	x	
Trinidad & Tobago	Caribbean Market Research Ltd.	x	
	K & K Import/Export Co.		x

Notes:

T1 = Supplying Promotion, Market Research Services

T2 = Supplying Distribution, Sales Services

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