

CARIBBEAN COMMUNITY: THE ELUSIVE QUEST FOR ECONOMIC INTEGRATION*

INTRODUCTION

Economic integration initiatives in the Anglophone Caribbean have been motivated primarily by the need to attenuate the constraints of small size on development. Extra-economic objectives of regional integration have included attaining national independence, sharing the costs of common services, pooling bargaining power in international fora and affirming a common West Indian identity. But economic integration is still a work in progress; and what has been accomplished so far has not impacted significantly on regional economic development. This could be due to faulty implementation of agreed integration schemes, or to inappropriate design of the schemes themselves, or to inherent limits in the capacity of economic integration *per se* to drive development in these economies. This chapter discusses initiatives from the launch of the Caribbean Free Trade Association (CARIFTA) in the 1960s to the most recent developments in the drive to create a CARICOM Single Market and Economy (CSME). It uses a political economy perspective to discuss characteristics, underlying theories, embedded strategies, implementation problems and economic outcomes. It concludes by outlining a possible research agenda.

OVERVIEW

Integration ideas have been articulated in the British West Indies for centuries (Mordecai 1968). Regional visionaries in the 1930s believed that a viable political and economic future for the territories could only be achieved if they were to forge a political union. Arthur Lewis in 1950 proposed a regional customs union to support industrialisation (Lewis, Arthur 1950). “The Economics of Nationhood” put forward by Trinidad and Tobago in 1960 as the model for the West Indies Federation called for a strong central government responsible for economic development (Trinidad and Tobago: 1959). After the dissolution of the Federation, the Trinidad and Tobago government called for a Caribbean Economic Community of all the island territories of the English, French, Spanish and Dutch speaking Caribbean.

Concrete institutional initiatives commenced with the signing of the CARIFTA Agreement in 1965. They continued through the full establishment of CARIFTA in 1967; CARICOM in 1973 and the current drive to create a CARICOM Single Market and Economy that began in 1989. The ‘Single Development Vision’ and the Strategic Plan for Regional Development, now under preparation, are meant to provide an implementation plan for the Single Economy. The initiatives are summarised in Table 9.1.

**TABLE 9.1: OVERVIEW OF ECONOMIC INTEGRATION INITIATIVES—
FROM CARIFTA TO SINGLE DEVELOPMENT VISION**

	CARIFTA	CARICOM 1973	CARICOM Revised/ CSME	Single Development Vision
Duration	1968-1973	1973-1989	Post 1989	2008-15
Member- ship	12 Anglophone Caribbean countries ^{1/}	13 Anglophone Caribbean countries ^{2/}	CARICOM: 15 countries CSME: 12 countries ^{3/}	12 CSME member countries
Form	Free Trade Area	Customs Union	Economic Union	Economic Union
Scope	Merchandise Trade	<ul style="list-style-type: none"> • Merchandise Trade • Minimal Provision for Services and Capital • Incentives Policy Harmonisation • Industrial Allocation • Joint Development of Agriculture and Natural Resources 	<ul style="list-style-type: none"> • Merchandise Trade • Services • Capital • Skilled Labour • Macroeconomic Policy Harmonisation • Monetary Union • Sectoral Policy Harmonisation 	<ul style="list-style-type: none"> • CSME completion road-map • Multi-dimensional development framework • Coordinated policies for ‘Economic Drivers’ • Coordinated Policies for ‘Enabling Economic Environment’

Notes

1. Antigua and Barbuda, Barbados, Belize (then British Honduras), Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts-Nevis-Anguilla, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago. Four countries signed the Agreement in 1965, seven more joined in 1968 and the twelfth (Belize) in 1971.
2. The Treaty of Chaguaramas of July 1973 established CARICOM. All 12 CARIFTA countries became members of both the Community and the Common Market. In 1983, The Bahamas became a member of the Community only.
3. The Revised Treaty of Chaguaramas establishing CARICOM and CSME was signed in 2002 and came into force in 2006. Suriname joined the Community in 1995 and Haiti in 2002, bringing the total membership of CARICOM to 15. The Bahamas and Montserrat are not participating in the CSME; Haiti’s participation has been delayed by institutional problems. The 12 remaining countries are participating in the CSME.

TRENDS AND OUTCOMES

Trade Integration

CARIFTA freed approximately 90% of intra-regional trade in manufactured goods (CARICOM 2005:43) and instituted managed intra-regional trade in some agricultural products. CARICOM 1973 called for liberalisation of all intra-regional trade and for a customs union through the phased introduction of a Common External Tariff (CET). Neither goal was achieved. In 1993, a new start was made with the phased introduction of a new, steeply reduced CET. By 2008, the new CET had been introduced by 11 of the 13 participating members and the unweighted average of CARICOM tariffs had fallen from 20% at the beginning of the 1990s to 10% (World Bank 2008:28)¹. Applied tariffs by member states vary widely

*From *Constraints to Growth and Transformation in the Caribbean*, Barbados: Caribbean Development Bank (Forthcoming) 2010.

¹A special rate of 40% for agricultural imports is applied. The original intention had been to reduce this tariff, but a 2000 study by CARICOM “determined that it would not be in the best interest of the Community to begin reducing

around the average (Moreira and Mendoza 2007)². Exceptions, derogations and unauthorised non-tariff barriers remain in effect in some member states. A CARICOM report in 2009 recorded compliance by member states with just 59% of the measures required to give full effect to the free movement of goods (Appendix 9.2). Hence although trade integration is well advanced in CARICOM, a full customs union is not yet in effect. There are also gaps in coverage of the free movement regime with respect to the treatment of goods produced in free zones, free circulation of goods within the Community, an electronic commerce regime and a government procurement regime.

Although CARICOM's intra-regional trade grew 23 fold from 1973 to 2008 (Appendix 9.3), it has not been a particularly dynamic element in the region's total trade. In 2001-2007 intra-regional trade was 14.5% of CARICOM's total trade, a modest increase from the 8.3% recorded in 1973-1979. Between the two periods intra-regional exports grew from 8.9% to 17.4% of total exports and intra-regional imports from 7.9% to 12.5% of total imports. One study applied trend analysis to the data and concluded that "the share of intra-regional trade on the non-oil trade remains around the modest level achieved in the late 1970s" (Moreira and Mendoza 2007:21). Notably, the majority of intra-regional exports³ originate in one member state; indeed most CARICOM member states do not rely significantly on the regional market. As well, intra-regional trade growth since the 1990s is not attributable to trade liberalisation and the CET (INTAL 2005: 21-23). Hence, questions continue to be raised about the benefits of trade integration to the majority of member states.

Services and Factor Movements

These came within the scope of CARICOM integration with the CSME⁴; the Revised Treaty calling for phased liberalisation of all services and factor movements. Implementation here has been slow and uneven.

Five categories of skilled Community nationals were prioritised for free movement in the Revised Treaty. This has since been increased to ten; but three of these have recently been put on hold, pending introduction of the Caribbean Vocational Qualification system for household domestics and artisans; and a general review of the schedule. Up to the end of 2008, just 6,210 Certificates of Skills Recognition had been issued entitling holders to seek employment in other member states (CARICOM 2009d: 59-60); but the number being utilised is not known. This number represents approximately 0.1% of the CSME population. Major problems remain to be addressed in the administration of the scheme; including procedures for the issuing of Certificates, the need for Contingent Rights regimes, and the need for a central registration and monitoring mechanism.

Member states were to have removed all legal restrictions on Services and the Right of Establishment by the end of 2005. As of 2009 there was an estimated 'legislative compliance gap' of 56% in the former and 41% in the latter (Appendix 9.2). Some states have been employing administrative measures to facilitate compliance; the CARICOM Secretariat has reported, perhaps optimistically, that 'liberalisation of

the CET on agricultural products since agricultural products continued to be subsidised in many countries across the world'. (CARICOM 2005b:65).

² In manufacturing preferences were 7-18% and in agriculture as high as 20%.

³ Trinidad and Tobago was responsible for 78.1% of intra-regional exports during 2001-06.

⁴ CARIFTA was limited to trade in goods. The CARICOM 1973 Treaty made token and highly qualified references to movement of services and capital; but nothing tangible was achieved in these areas. Labour was excluded from the scope of the 1973 Treaty.

services has succeeded' and that there is 'general compliance' with removal of restrictions on the Right of Establishment (CARICOM 2009d:6). The same report, however, lists several obstacles that continue to operate to the full exercise of this Right⁵. While official data are not available; anecdotal evidence suggests that there has been little cross-border movement in these two categories.

To facilitate the free movement of capital, the Revised Treaty requires abolition of exchange controls and convertibility of regional currencies. This has not been fully achieved: while some countries have liberalised their exchange regimes and floated their currencies, others maintain fixed exchange rates supported by capital controls⁶. In 2005 it was reported that intra-regional direct investment had grown significantly, amounting to about 10% of all FDI in the Region, with more than two-thirds coming from Trinidad and Tobago (CARICOM 2005a:104). The sectoral pattern shows a heavy concentration in banking, insurance and other financial services; followed by trading and distribution⁷. But the degree to which this cross-border investment is CSME-related is not known⁸. Another issue that needs to be researched is whether cross-border investment has been used as a platform for exporting to extra-regional markets, which is part of the rationale for CSME.

Policy Coordination

Very limited progress has so far (2009) been recorded in achieving policy coordination, which is necessary to move from Single Market to Single Economy⁹. The areas concern (i) institutional framework for macro-economic policy formulation, coordination and convergence; (ii) monetary cooperation/monetary union; (iii) fiscal policy coordination and harmonisation; (iv) financial policy coordination and harmonisation; (v) capital market integration; (vi) investment policy harmonisation; and (vii) reducing disparity and building cohesion. For the most part, these matters impinge on member states' freedom to deploy policies in the light of their own perceived national interests and of the specific characteristics of their economies, which often differ widely. Notable examples of this difficulty are the failure to reach agreement on monetary union, on harmonisation of incentives, and on the CARICOM agreements on investment and on financial services. A CARICOM Secretariat report on the state of implementation of the Single Economy bemoans "*the prevalence of ad hoc mandates which tend to supersede planned initiatives; and generally 'the preference of member states for national solutions to meet challenges which could optimally be addressed at the regional level'*" (CARICOM 2009e:26).

⁵ Issues identified are entry into force of the Movement of Factors Act or its equivalent, removal of the Work Permit, relevant subsidiary laws and factors connected to the process of establishment, immigrant entry procedures for Establishment and treatment of Managerial, Technical and Supervisory Personnel.

⁶ The former group, which includes Jamaica, Guyana and Trinidad and Tobago, generally allow free capital movement but their currencies are not freely convertible. Barbados and Belize maintain capital controls; while the Barbados and East Caribbean dollars are accepted in several other regional countries.

⁷ Four of the ten largest Pan-Caribbean firms are financial services firms (mainly banking or insurance), five are conglomerates involved mainly in trading and financial services; one is an exclusively manufacturing enterprise (CARICOM 2005a:Table III.4)

⁸ The Report lists the main factors as relaxation of exchange controls, arrangements for avoidance of double taxation and greater macroeconomic stability (CARICOM 2005a:104). Only the second of these can be attributed specifically to CSME arrangements.

⁹ Considerable technical and drafting work has been carried out on some subjects; notably the agreements relating to investment and financial services.

The Single Development Vision and Role of the Single Economy (Girvan *et al*: 2007) approved in 2007 responds to this issue by prioritising policy coordination in industry clusters¹⁰ which have the potential to generate all-round economic benefits. This is to be followed by a Strategic Plan for Regional Development focused on the provision of regional public goods¹¹ critical to the advancement of economic integration. Phased implementation of the Single Economy over 2008-15, as set out in the Vision, is behind schedule.

STRATEGIES AND POLICIES

TABLE 9.2: POLITICAL ECONOMY OF ECONOMIC INTEGRATION INITIATIVES

	CARIFTA	CARICOM 1973	CARICOM Revised/CSME	Single Development Vision
Duration	1968-1973	1973-1989	Post 1989	2008-15
Strategy	Regional import substitution	Integration for development and transformation	Open Regionalism	Developmental Open Regionalism
Orientation	Inward-looking	Inward-looking	Outward-looking	Outward-looking
Agency	Market-driven	State interventionist	Market-driven	State-market collaboration
Theory	Neoclassical	Development and transformation	Neoliberalism	Modified neoliberalism
Principal Intellectual Influence	External	Internal	External	Internal
Context	<ul style="list-style-type: none"> Exhaustion of national import substitution UK application to European Economic Community (EEC) 	<ul style="list-style-type: none"> Trade expansion under CARIFTA UK decision to join EEC 	<ul style="list-style-type: none"> Washington Consensus Uruguay Round North American Free Trade Area (NAFTA) EU Single Market 	<ul style="list-style-type: none"> Inauguration of CARICOM Single Market Ssequencing of Single Economy Implementation
Motive Force	Mainly Internal <ul style="list-style-type: none"> Governments Private sector Regional academics (UWI)] 	Mainly Internal <ul style="list-style-type: none"> Governments Private sector Regional academics (UWI) 	Mainly External <ul style="list-style-type: none"> Globalisation WB IMF Donor countries 	Mainly Internal <ul style="list-style-type: none"> Governments Private sector Regional stakeholders CARICOM Secretariat Regional academics (UWI)

CARIFTA: Regional Import Substitution

¹⁰ Energy-related industries; manufacturing; agriculture, forestry and fishing; sustainable tourism and agro-tourism; emerging export and other services.

¹¹ Macroeconomic Development Policy Framework; Regional Energy Policy; Intra-Regional Agricultural Production and Trade Policy; Agri-Tourism Policy; Air, Road and Maritime Transportation Policy; Institution Strengthening (Quality, Standards and Innovation Systems), Private Sector Development Policy and Capacity-Building; Human Resources Information Systems.

Table 9.2 suggests a political economy typology of integration initiatives. We characterise CARIFTA as an extension of the strategy of (national) import substituting industrialisation; particularly in the more industrialised regional countries. Manufacturing industries set up behind protective tariffs in the 1950s to the 1960s had saturated domestic markets; and local manufacturers lobbied vigorously for the freeing of intra-regional trade in order to access the wider regional market. CARIFTA was therefore market oriented¹² and inward looking. Its intellectual antecedents lay in the neoclassical theory of integration. Much of its inspiration came from the example of the European Common Market.

CARICOM 1973: Integration for Development and Transformation

CARICOM 1973 envisaged a significant degree of government initiative and a considerable deepening of industrial development; and its design showed major influences from the thinking of regional economists. Since the 1950s Caribbean economists had argued that a unified regional market by itself would be insufficient to bring about regional development because it would be too small to support economies of scale for most manufacturing industries. Arthur Lewis (1950) had argued for governments to play a developmental role in fomenting export-oriented industrialisation. In the 1960s, regional economists published critiques of neoclassical integration theory on the grounds that it focused unduly on the static efficiency gains of trade creation; which, given the small size and lack of structural diversification of regional economies, would be limited in quantum and skewed in their distribution towards the more industrially advanced countries. They proposed an alternative model which placed regional economic integration at the centre of a strategy of ‘development through structural transformation’. This would combine the natural resources of regional countries in vertically integrated regional industrial complexes aimed at satisfying existing and incremental demand in the regional market. The production possibility frontier would be expanded beyond that available to any one territory operating singly; and the new activities would generate externalities of various kinds (McIntyre 1971; Demas 1965; Brewster and Thomas 1967). Related proposals were advanced for the rationalisation of export industries in a regional context, with production shifted to low-cost locations, lowering of production costs by joint research and development and other kinds of functional cooperation, joint processing of agricultural and mineral raw materials to increase local value added, joint marketing efforts in external markets and joint negotiation with foreign (multinational) corporations engaged in the export industries (Beckford 1967; Girvan 1967).

These ideas gained currency as other developments—notably the imminent entry of the U.K into the European Economic Community—encouraged the formation of CARICOM. Accordingly, the 1973 Treaty of Chaguaramas included objectives of achieving ‘continuing integration of economic activities’ and ‘greater economic independence’; and provision for regional industrial programming, for the joint development of natural resources and for the rationalisation and integration of agricultural development¹³. During the 1970s, plans were prepared for a Caribbean Industrial Programming Scheme, a Caribbean Food Plan, the Harmonisation of Fiscal Incentives Scheme and the Caribbean Enterprise Regime. In the last analysis, none of these plans were approved by governments and carried forward to implementation.

Was the failure due to lack of institutional capacity and political will; or was the strategy embodied inappropriate? In fact, the model ran into difficulties, almost as soon as it was adopted, as a result of the oil price shocks in the latter part of 1973. This produced a sharp divergence in the economic fortunes of CARICOM’s net energy importing member states and its sole net energy exporting state; and led to a series of defensive actions by the most adversely affected countries that impacted heavily on intra-regional trade. Acute political and ideological differences also emerged within the Community. In the 1980s, the debt and adjustment crises and the rise of neoliberal policies drove the final nail in the coffin of

¹² CARIFTA did include, however, managed trade in agricultural products as part of its special regime for LDCs

¹³ CARICOM 1973; Articles 4 (a) (i) and (iii); 46; 47 and 49.

the model. In effect, the strategy of ‘integration for transformation’ embedded in the 1973 Treaty was never put to the test.

CSME: Open Regionalism

The shift towards Open Regionalism owed much to the neoliberal thinking that had become prevalent with the Washington Consensus, associated with IMF/World Bank/donor agency conditionalities; and other developments including the launch of the General Agreement on Tariffs and Trade (GATT) Uruguay Round, the NAFTA negotiations and of the European Single Market. These were key elements in CARICOM leaders’ adoption of the *Nassau Declaration on Structural Adjustment* in 1984 and the *Grand Anse Declaration* of 1989¹⁴. To that degree, the CSME was an externally driven model in its political origins and intellectual provenance.

Open Regionalism is an outward-looking, market-oriented model by which intra-regional liberalisation prepares the economies for opening to the outside world; such opening proceeding sequentially or even simultaneously. Liberalisation is extended to services and investment; and market-friendly policies are coordinated and bound across a broad swath of ‘trade-related’ areas. Creation of a single regional economic space is supposed to induce cross-border investment, enable businesses to realise economies of scale and provide them with access to a wider pool of labour and services. Efficiency gains will increase the international competitiveness of regional production, leading to higher levels of local and foreign investment and increased exports to extra-regional markets¹⁵. Performance indicators would include increased intra-regional trade and factor movements and increased extra-regional exports attributable to these. We have seen where these effects are not yet evident to any significant degree within CARICOM. There could be several reasons for this: (a) delays in CSME implementation providing mixed signals to businesses and individuals; (b) lagged responses of private agents to changes already made; or (c) inherent limitations in the model itself in the concrete conditions of CARICOM. There could also be circularity at work, in that implementation delays could be influenced by governments’ perception of limited prospective benefits. We revisit this subject in discussing a research agenda.

Single Development Vision and Strategic Plan: ‘Developmental/Open Regionalism’?

The context of the latest initiatives is the drive to move from Single Market¹⁶ to Single Economy and to formulate a coherent development strategy to guide the sequence of implementation. Notable features of the Vision are that it is multi-dimensional; it was designed by local stakeholders and it calls for a more active government role than Open Regionalism in the pure form. That role consists of (a) forging a regional social partnership, (b) the selection and targeting of support for specific industrial clusters deemed to have potential for cross-border trade and investment and for exporting to international markets, (“regional industrial policy”); (c) provision of ‘public goods’ of critical importance to the integration process; possibly (d) direct government investment in productive activity (the ‘entrepreneurial state’); and (e) fashioning an enabling environment that goes beyond the common policies of the Revised Treaty. The last includes subjects such as human resource development, a, special regime for small and medium enterprises (SMEs) and other areas of functional cooperation.

¹⁴ Both documents are available at www.caricom.org.

¹⁵ See the Preamble of the Revised Treaty of Chaguaramas (CARICOM 2002) *paragraphs 2, 3, 5, 6, 7 and 9*.

¹⁶ The 12 CSME participating states signed “Declarations of Single Market Compliance” between January and June of 2006.

TABLE 9.3: TREATMENT OF CROSS-CUTTING ISSUES IN INTEGRATION INITIATIVES

	CARIFTA	CARICOM 1973	CARICOM Revised/ CSME	Single Development Vision
Duration	1968-1973	1973-1989	From 1989	2008-15
Special Regimes	LDCs	LDCs/MDCs	LDCs/Disadvantaged Countries, Sectors and Regions/MDCs	LDCs/Disadvantaged Countries, Sectors and Regions/MDCs
Governance Mode	Inter-governmental	Inter-governmental	Inter-governmental/ Supranational	Inter-governmental/ Supranational
Complementary Pillars	Common Services	<ul style="list-style-type: none"> • Functional Cooperation (mainly social) • Foreign Policy Coordination 	<ul style="list-style-type: none"> • Functional Cooperation (extended to external trade) • Foreign Policy Coordination 	<ul style="list-style-type: none"> • Functional Cooperation (extended to economic) • Foreign Policy Coordination

Cross-cutting Issues

Cross-cutting issues, set out schematically in Table 9.3, have been the handling of economic disparities among member states through special regimes; the mode of governance in integration; and the complementary ‘pillars’ to economic integration.

Disparities and Convergence

The integration schemes have all contained special provisions to address the inherent disadvantages of some members in benefiting from market integration and to ensure a more equitable sharing of its benefits. This is the ‘integration bargain’ (Lewis, Vaughan 2009b) between the more industrially advanced (or larger) and less industrially advanced (or smaller) members on the distribution of benefits from the arrangement. The initial designation in CARIFTA of LDCs and MDCs corresponded broadly to country size: the four largest member states were designated MDCs; all others excepting The Bahamas were designated LDCs¹⁷. The Revised Treaty expanded the special regime by designating the new category of ‘disadvantaged countries, regions and sectors’—entities that are temporarily disadvantaged by the operation of the Single Market. The criteria include small size; economic structure and vulnerability; severe debt and effects of natural disasters. The provisions of CARIFTA/CARICOM special regimes have included extensions on the phasing of tariff liberalisation for revenue-sensitive items; derogations and exceptions for protection of sensitive industries; managed trade to give preference to LDC sources (agricultural products)¹⁸; allocation of industries to LDCs¹⁹; special provision for LDC participation in

¹⁷ MDCs: Barbados, Guyana, Jamaica and Trinidad and Tobago; LDCs: Antigua and Barbuda, Belize, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines. The Revised Treaty added The Bahamas and Suriname to the list of MDCs.

¹⁸ The Oils and Fats Agreement; the Agricultural Marketing Protocol, and the Guaranteed Marketing Scheme; were devised to support marketing of LDC agricultural products as parts of the CARIFTA Agreement and continued under the 1973 CARICOM Treaty.

¹⁹ This was to have been accomplished under the CIPS, which never came into effect.

agricultural rationalisation and development; provision of concessionary loans through CDB²⁰; and provision of financial and technical assistance (TA).

CARICOM economies exhibit wide divergence in their growth trajectories since the onset of the Community. Together with the accession of new members, this has resulted in a highly heterogeneous economic grouping (Appendix 9.1). Intra-regional income disparities are wide: the ratio of the per capita income of the richest to the poorest member was 29:1 in 2008; amongst CSME participating countries, the ratio was 25:1 if Haiti is included and 12:1 excluding Haiti. Several of the smaller island economies that specialise in tourism and international financial services have pulled ahead of larger members that rely on the export of agricultural and other primary commodities. Another kind of difference is between the three member states on the South and Central American mainland, which are well endowed with land and other natural resources relative to their population; and the eleven island member states, where population density is on average 61 times higher.

The economic impact of special regimes so far is therefore deserving of research. It seems likely that CDB concessional lending to LDCs for infrastructure made a significant contribution to their generally strong growth in the period 1970–2000, especially their tourism-related growth²¹. But what also needs to be addressed is the nature of the ‘integration bargain’ that is appropriate in a Community with the present characteristics of differentiation; of which size is only one. The largest CARICOM countries in terms of population and land area are now, generally speaking, the poorest on average. It is not clear what they have to gain from economic integration; either by way of exporting goods or people to other members. Their export supply capabilities to the regional market are at present limited; as is the capacity of the smaller countries to absorb large numbers of their people. The Single Development Vision had, as one objective, some convergence in levels of development among members; but was short on specific means. There is need for research on the way in which convergence is to be measured, the degree of convergence to be aimed at, the time frame of convergence, and the method of its achievement, including institutional arrangements.

Functional Cooperation

Functional cooperation reduces the unit costs of providing certain public services by sharing the expenses through joint provision on a regional scale; and exploits the synergies of combining efforts and resources of individual member states. Its origins lie in regional institutions set up in colonial times which were taken over as ‘Common Services’ under the West Indies Federation and then under CARIFTA in the 1960s. Functional cooperation was designated the second pillar of CARICOM in the 1973 Treaty and has continued as an enduring, and notably successful, feature of the CARICOM integration experience. The Community now claims 12 subject areas of active functional cooperation²², mainly in the social and environmental areas (Alleyne 2008).

²⁰ This was reflected in Article 1 of the CDB Agreement and in the LDCs’ preferential access to the Bank’s ‘soft loan’ window, the Special Development Fund (SDF), which allocated 71% of its total approvals to LDCs over 1970-2000.

²¹ Approvals for LDCs from the CDB’s concessional window, the SDF, amounted to USD 571 M over 1970-2000, which was 71.3% SDF loan approvals. Overall, CDB loan approvals to LDCs were USD 982 M, 53% of the total. Source: CDB 2004.

²² CARICOM 2005b:133-221 (Part 4).

Functional cooperation has generally been equated with the ‘non-economic’ aspect of integration²³. This is becomes less appropriate with the drive to create the Single Economy and a supporting regional development strategy. Under the Single Development Vision and the Strategic Plan for Regional Development, functional cooperation should be extended to subject areas that are part of the enabling environment. Furthermore, the economic contribution of functional cooperation in social services is well-established (Thomas 2008). It has been argued that functional cooperation has greater potential benefits than market integration in small economies like those of CARICOM (Brewster 2000; Girvan 2006:28; Moreira and Mendoza: 2007:37-40). The rationale is that small economies have limited scope for trade creation among themselves; and much to gain from sharing the costs of public services where economies of scale and critical minimum mass are important. There is, therefore, a need for studies of the economic costs and benefits of functional cooperation; both existing and prospective.

Governance

Underlying CARICOM’s continuing implementation deficit is the inter-governmental mode employed in the integration process (Brewster 2000). Essentially, this relies on discretionary implementation at the national level of regionally taken decisions; and preserves the character of CARICOM as a ‘Community of Sovereign States’. The Prime Minister formerly responsible for CSME has drawn attention to the enormity of the task involved in implementing CSME by this method (Arthur 2002). The difficulties were documented in detail in the 2009 audit of CSME implementation carried out by the CARICOM Secretariat (CARICOM 2009d; 2009e). CARICOM leaders in 2003 agreed in principle to a reform of Community governance by which decisions of the Heads of Government would have automatic legal effect in member states, supplemented by the appointment of Commissioners with executive responsibility to oversee implementation and a system of automatic financing of community institutions (CARICOM 2003). A commissioned report spelt out in some detail how this could be accomplished (Lewis, Vaughan 2006), but the governments have so far failed to act on the recommendations; with the result that CSME implementation continues to falter.

OTHER INTEGRATION INITIATIVES

Organisation of Eastern Caribbean States

Parallel to, and in several respects in advance of, the process of CARICOM integration is the consolidation of economic integration within a sub-group of members through the OECS. This grew out of the West Indies Associated States Council of Ministers (WISA) launched in 1966²⁴. In 1968, WISA members decided to establish the Eastern Caribbean Common Market and in 1981 WISA was transformed into the OECS by the Treaty of Basseterre. By 1988, the OECS eliminated most barriers to intra-trade, had a common external tariff, common rules of origin and a harmonised trade policy which included protective quantitative restrictions; common fiscal incentives *vis-à-vis* foreign companies. Monetary integration was present from the outset through the Eastern Caribbean Currency Union (ECCU) and Eastern Caribbean Central Bank (ECCB); established in 1983 as successor to the Eastern Caribbean Currency Authority set up in 1965. The Eastern Caribbean Dollar (ECD) is arguably one of the strongest

²³ This is due mainly to the designation of functional cooperation as a separate ‘pillar’ from economic integration, and the placement of most functional cooperation activities under the responsibility of the CARICOM Council for Human and Social Development (COHSOC).

²⁴ WISA was initiated by five Eastern Caribbean states, when their status was altered from British colonies to ‘Associated States’. The OECS now has seven members: Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines; and two associate members: Anguilla and the British Virgin Islands.

in CARICOM and has facilitated trade, travel and other business transactions throughout the sub-region (Sanders 2007). The common currency has also reduced the vulnerability of individual member states to the effects of external shocks, such as the loss of the banana market (Dominica) and hurricane Ivan (Grenada). Other notable instances of OECS functional cooperation are the Eastern Caribbean Aviation Authority, the Eastern Caribbean Telecommunications Regulatory Authority, and the Pharmaceutical Procurement System. The OECS is now aiming to achieve an Economic Union by June 2010. The draft revised Treaty of Basseterre removes all barriers to trade in goods and services and movement of capital and labour. Eleven sectors are listed for joint action²⁵.

Arguably, the OECS has, therefore, succeeded in several areas where CARICOM has either failed or is lagging far behind. The lessons are that similarities of size and levels of development, a history of shared services, geographical and social proximity and sense of community are powerful integrative forces that are absent, or much weaker, in the wider CARICOM grouping.

Other Initiatives

In August 2008, Trinidad and Tobago and three members of the OECS²⁶ announced their intention to form an economic union by 2011 with ‘*appropriate political integration*’ by 2013. A Task Force appointed to report on the first proposal recommended a ‘new bargain’ of integration based on the identification of ‘designated spaces’ of integration²⁷. There would be a ‘*merging of the participating states decision-making competencies*’ for the particular activities undertaken in the designated areas and an evolutionary approach to the building of further political structures²⁸. The Report continues to be the subject of consultation within and among the participating states. Awaiting resolution are the issues of the relationship of the proposed arrangement to (a) the wider CSME project, and (b) the proposed OECS Economic Union. Regarding the second, at their meeting in September 2008, OECS leaders reaffirmed their intention to complete the OECS Economic Union in 2009 and “with the expectation that Trinidad and Tobago will “join the Economic Union by 2011” (OECS Secretariat 2008).

Several cross-cutting regional initiatives that have the potential to impact on the CARICOM integration process should be mentioned here. The Association of Caribbean States (ACS), which includes all CARICOM member states, was launched in 1994 with the expectation that the grouping would establish a Free Trade or preferential trading area. This did not materialise; and the ACS now confines itself to promoting functional cooperation around subjects of common interest to its members. The *Alianza Bolivariana Para Los Pueblos de Nuestra America* (ALBA) has attracted three CARICOM members to its membership as a grouping based on solidarity, complementarity and the treatment of asymmetries. ALBA is operationalised through inter-governmental agreements for reciprocal trade, finance and technical cooperation. So far these do not cut across CSME commitments; but they raise the question of the need for a more coherent CARICOM policy towards third country groupings to which individual member states belong. A similar issue arises with respect to the Union of South American States

²⁵ They include civil aviation, agriculture, tourism, education, environmental sustainability, marine, disaster response and telecommunications.

²⁶ Grenada, St. Lucia, and St. Vincent and the Grenadines

²⁷ The designated spaces are (a) Economic spaces (Land, Maritime and Air); (b) Human Resource spaces; (c) Monetary spaces; (d) Security spaces; (e) External Relations spaces, and (f) Legal and Judicial spaces.

²⁸ The Task Force Report is currently the subject of consideration and consultation by the participating governments.

(UNASUR), which has two CARICOM members, and which is aiming to effect a customs union by 2019²⁹.

The most far-reaching issues are those raised by the EPA with the EU signed by 14 CARICOM states and the Dominican Republic, grouped together as the CARIFORUM group (Girvan 2008). The EPA will eliminate barriers to the movement of the majority of goods and services and of current and capital payments among the 12 CSME participating countries, the other 3 members of CARICOM, the Dominican Republic and the 27 member states of the EU; and binding policies in a number of subject areas that are contemplated, but not yet concluded, within CSME³⁰. Its implementation machinery cuts across the governance machinery of CARICOM organs. The question arises as to what will be the purpose and role of CSME once the EPA is fully implemented.

Strategies and Policies: Reflection

The succession of integration schemes indicate a search for a satisfactory model on which the practice of integration may be based. On both theoretical and empirical grounds, there has been considerable scepticism amongst Caribbean economists on the efficacy of trade liberalisation centred models of economic integration in achieving development objectives. A similar scepticism to that which emerged in the 1960s with respect to the inward-looking, free trade model embodied in CARIFTA is now being expressed with respect to the Open Regionalism model embodied in CSME. The influence of orthodoxy in design is attributable to contextual factors, and pressures emanating from the political economy, which have infused strong *reactive* and *imitative* aspects to the various initiatives. Key transitions in the course of European integration simultaneously precipitated ‘reactive integration’ in the Caribbean and ‘imitative integration’ in the design of form. Hence, part of the motivation of Caribbean decision-makers may have been a wish to articulate their schemes in forms that external stakeholders could readily understand—the drive for external legitimisation.

The tension between orthodoxy and appropriateness manifests itself in several ways: efforts to modify design by adding ‘home grown’ features aimed at securing maximum development impact; devising special regimes to address differentiation; and persistent attention to functional cooperation as possibly offering equal or greater benefits compared to economic (market) integration. The issue of ‘appropriateness of form’ arises with great force in the present conjuncture, in that reluctance to proceed as scheduled with completion of CSME appears to be associated with a perception of limited benefits *vis-à-vis* implementation costs. The relevance of CARICOM is also being questioned because of the slowness and ineffectiveness of the Community’s response to the impact on regional economies of the global financial and economic crisis of 2008-09. Task Forces have been set up and declarations made on the importance of adopting a joint CARICOM coping strategy³¹; but the options are limited because of the absence of a common financial sector regulatory framework and of an institutional capacity and implementation machinery for macroeconomic management (Girvan 2009; Sanders 2010). In

²⁹ UNASUR initiatives include the creation of a single market to eliminate the fees for non-sensitive products by 2014 and non-sensitive items by 2019. Source: Deutsche Welle (2009)

³⁰ Services, treatment of investment, intellectual property, public procurement, competition, electronic commerce.

³¹ The first Task Force was established after the 13th Meeting of the Council for Finance and Planning (COFAP) on 29th January 2009; the second around May 2009 and the third after the 30th CARICOM Heads of Government Meeting in July 2009. The net result was an agreement to ‘coordinate approaches’ to international financial agencies. See CARICOM 2009a; 2009b; 2009c.

consequence, several member states have adopted national crisis management measures which ultimately divert attention from CSME completion.

TOWARDS A RESEARCH AGENDA

The preceding analysis suggests the need to open up lines of integration research that go beyond the restrictive confines of issues in CSME implementation. An overarching issue is the nature of the *development strategy* that economic integration is meant to serve. The Single Development Vision and the World Bank report (World Bank 2008) are the latest of several documents that raise this question, but much more remains to be done to elaborate a strategy that both addresses the underlying constraints on regional development and is capable of practical implementation. Key questions are: the present and future bases of the international competitiveness of regional economies, including the role of resource endowments, accumulated capabilities, human capital, knowledge, product uniqueness, environmental quality, culture and the like; and the activities, industries and industry clusters that will drive regional development and underpin a new insertion into the global economy. Linked to this are the issues of appropriate balance between national and regional strategies, between state intervention and market mechanisms and between the private and public sectors. Coherence also requires taking account of the interface with trade policy, social policy and environmental policy.

It is within the context of strategy that questions of the *form* of economic integration are logically addressed. Is the CSME, as presently designed, the most suitable vehicle to support regional development? What are the costs and benefits of completing the CSME in the present form, and the likely distribution of these among member states? Can the scheme be modified or implemented in ways that reduce implementation costs, secure consensus on key issues and more directly support the development of productive activities? Are there alternatives to CSME completion that show greater promise of yielding tangible benefits and of supporting regional development? How does the approach of providing 'regional public goods', embodied in the Strategic Plan for Regional Development, fit into this? Hence, a 'menu of options' approach to integration research may be useful; with each option setting out the relationship to wider development strategy, economic costs and benefits, and the nature of required institutions and implementation steps.

Finally, linked to strategy and form are the issues of the *scope* of integration and the nature of relationship of CARICOM as a Community, and of its individual member states, to third parties. Here arise issues of the pros and cons of Dominican Republic membership of CARICOM in the light of the CARIFORUM-European Union Economic Partnership Agreement (EPA); the implications of the EPA itself for regional development strategies and for the CARICOM integration process; implications of free trade agreements with Canada and the United States; and implications of multilateral trade negotiations within the WTO Doha round. What are the likely consequences of trade reciprocity between partners of highly unequal size and levels of development? How do the regulatory obligations of FTAs in areas such as services, investment, public procurement and intellectual property; and national treatment and Most Favoured Nation obligations; impact the scope for regional development policies? Equally important here are issues in CARICOM's relationship with Cuba and the rest of the Caribbean; with the ACS, ALBA, and UNASUR; and with emerging economies of the Global South.

CARICOM: SELECTED STATISTICS

Country	Population (2008)	GDP 2008 (USD mn)	Area (sq. km)	GDP per capita (USD)	Population per sq. km
Antigua and Barbuda	86,000	1,225	442	14,244	195
Bahamas, The	332,000	6,935	13,864	20,889	24
Barbados	255,000	3,409	431	13,369	592
Belize	311,000	1,367	22,966	4,395	14
Dominica	73,000	364	750	4,986	97
Grenada	106,000	638	345	6,019	307
Guyana	763,000	1,158	214,970	1,518	4
Haiti	9,780,000	6,953	28,000	711	349
Jamaica	2,689,000	15,068	10,991	5,604	245
Montserrat	5,000	na	103		49
St. Kitts and Nevis	49,000	540	269	11,020	182
St. Lucia	170,000	1,011	616	5,947	276
St. Vincent and the Grenadines	109,000	594	389	5,450	280
Suriname	515,000	2,881	163,820	5,594	3
Trinidad and Tobago	1,338,000	23,898	5,128	17,861	261
TOTAL	16,581,000	66,041	463,084	3,983	36

Subtotals

MDCs ¹	5,892,000	53,349	409,204	9,054	14
LDCs ²	904,000	5,739	25,777	6,348	35
OECS ³	593,000	4,372	2,811	7,373	211
Island states	14,992,000	60,635	61,328	4,044	244
Mainland states ⁴	1,589,000	5,406	401,756	3,402	4

Notes.

1. The Bahamas, Barbados, Guyana, Jamaica, Suriname and Trinidad and Tobago.
2. Antigua and Barbuda, Belize, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines. Montserrat is also an LDC.
3. Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines. Montserrat is also a member of the OECS.
- 4 Belize, Guyana and Suriname.

Source: Data from World Bank Global Development Finance 2009 and World Development Indicators, 2009

**CSME PARTICIPATING COUNTRIES¹: STATE OF LEGISLATIVE COMPLIANCE
WITH IMPLEMENTATION OF THE CARICOM SINGLE MARKET**

Compliance Category	No. of Compliance Instruments Required	No. of Compliance Instruments in Effect	Percentage In Effect
Legal and Institutional Infrastructure	113	77	68
Free Movement of Goods	83	49	59
Free Movement of Persons	88	43	49
Right of Establishment	113	67	59
Movement of Capital	16	11	69
Free Movement of Services	700	307	44
Intellectual Property	45	27	60
Other	8	4	50
TOTAL	1166	585	50

1. Antigua and Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St. Lucia, St Kitts and Nevis, St. Vincent and the Grenadines, Suriname and Trinidad and Tobago.

Source: author's estimate, based on data in CARICOM 2009d, Attachment 1, Parts 1 and 2.

APPENDIX 9.3

CARICOM TRADE, 1973-2006
(Mn. XCD and Percent)

Year	Intra-Imports (1)	Total Imports (2)	Intra-Exports (3)	Total Exports (4)	Total Intra-Trade (5)=(1) +(3)	Total CARICOM Trade (6)=(2)+(4)	Intra-Imports/ Total Imports %	Intra-Exports/ Total Exports %	Intra-Trade/ Total Trade %
1973	296.5	3,950.0	290.5	2,709.8	587.0	6,659.9	7.51	10.72	8.81
1974	508.1	7,180.7	486.5	6,660.4	994.5	13,841.2	7.08	7.3	7.19
1975	649.2	7,552.2	599.2	7,020.5	1248.5	14,572.7	8.6	8.54	8.57
1976	741.2	9,871.7	778.7	8,701.6	1,519.9	18,573.3	7.51	8.95	8.18
1977	750.2	9,623.7	787.8	9,282.1	1,538.0	18,905.8	7.8	8.49	8.14
1978	827.5	10,399.4	830.9	9,405.3	1,658.4	19,804.7	7.96	8.83	8.37
1979	1,045.0	11,071.7	1011.5	10,724	2,056.5	21,795.7	9.44	9.43	9.44
1980	14,11.6	15,993.2	1427.9	16,004.1	2,839.5	31,997.3	8.83	8.92	8.87
1981	1,615.4	16,931.6	1504.5	15,123.9	3,119.8	32,055.5	9.54	9.95	9.73
1982	1,540.6	17,646.8	1479.9	12,442.9	3,020.5	30,089.7	8.73	11.89	10.04
1983	1,371.2	14,863.0	1353.3	10,471.0	2,724.5	25,334.0	9.23	12.92	10.75
1984	1,204.3	12,424.6	1237.2	10,265.5	2,441.5	22,690.1	9.69	12.05	10.76
1985	1,141.6	11,287.0	1251.1	9,634.9	2,392.7	20921.9	10.11	12.99	11.44
1986	811.1	10,627.9	839.8	7,541.9	1,650.9	18,169.8	7.63	11.14	9.09
1987	878.0	10,981.3	871.4	7,853.9	1,749.3	18,835.2	7.99	11.09	9.29
1988	1,014.8	11,786.7	1038.7	8,373.2	2,053.5	20,159.9	8.61	12.4	10.19
1989	1,252.9	13,783.7	1271.6	9,386.0	2,524.5	23,169.8	9.09	13.55	10.9
1990	1,350.3	14,194.9	1374.7	11,117.4	2,725.0	25,312.2	9.51	12.37	10.77
1991	1,305.9	1,5519.0	1235.4	10,890.7	2,541.3	26,409.7	841	11.34	9.62
1992	1,363.1	14,438.4	1249.2	10,685.6	2,612.2	25,124.0	9.44	11.69	10.4
1993	1,499.8	15,990.6	1447.6	10,202.6	2,947.4	26,193.1	9.38	14.19	11.25
1994	1,838.0	16,072.9	1798.3	12,080.9	3,636.2	28,153.7	11.44	14.89	12.92
1995	2,321.5	21,787.3	2373.9	15,121.0	4,695.5	36,908.3	10.66	15.7	12.72
1996	2,511.3	22,913.4	2459.7	15,556.6	4,971.0	38,470.0	10.96	15.81	12.92
1997	2,706.4	26,767.6	2,651.5	15,567.9	5,357.9	42,335.5	10.11	17.03	12.66
1998	2,848.1	26,234.7	2,837.1	14,346.6	5,685.2	40,581.3	10.86	19.78	14.01
1999	2,985.0	25,602.6	2,962.9	15,261.2	5,947.9	40,863.8	11.66	19.41	14.56
2000	3,370.6	26,864.1	2,838.2	18,750.9	6,208.8	45,615.0	12.55	15.14	13.61
2001	3,381.0	27,363.8	3,709.7	18,119.6	7,090.7	45483.4	12.36	20.47	15.59
2002	2,966.7	27,548.1	2,703.6	14,911.9	5,670.3	42,460.0	10.76	18.13	13.35
2003	4,023.1	31,369.4	3,663.5	19,440.5	7,686.6	50,809.9	12.8	18.84	15.12
2004	4,527.5	36,032.1	3,402.3	25,258.2	7,929.8	61,290.3	12.56	13.47	12.93
2005	6,247.7	45,083.1	6,625.8	34,296.7	12,873.5	79,379.8	13.9	19.31	16.21
2006	6,136.3	48,824.1	7,870.9	48,420.2	14,007.2	97,244.2	12.56	16.29	14.4

Sources: CARICOM 2005b:106; CARICOM 2008.

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