

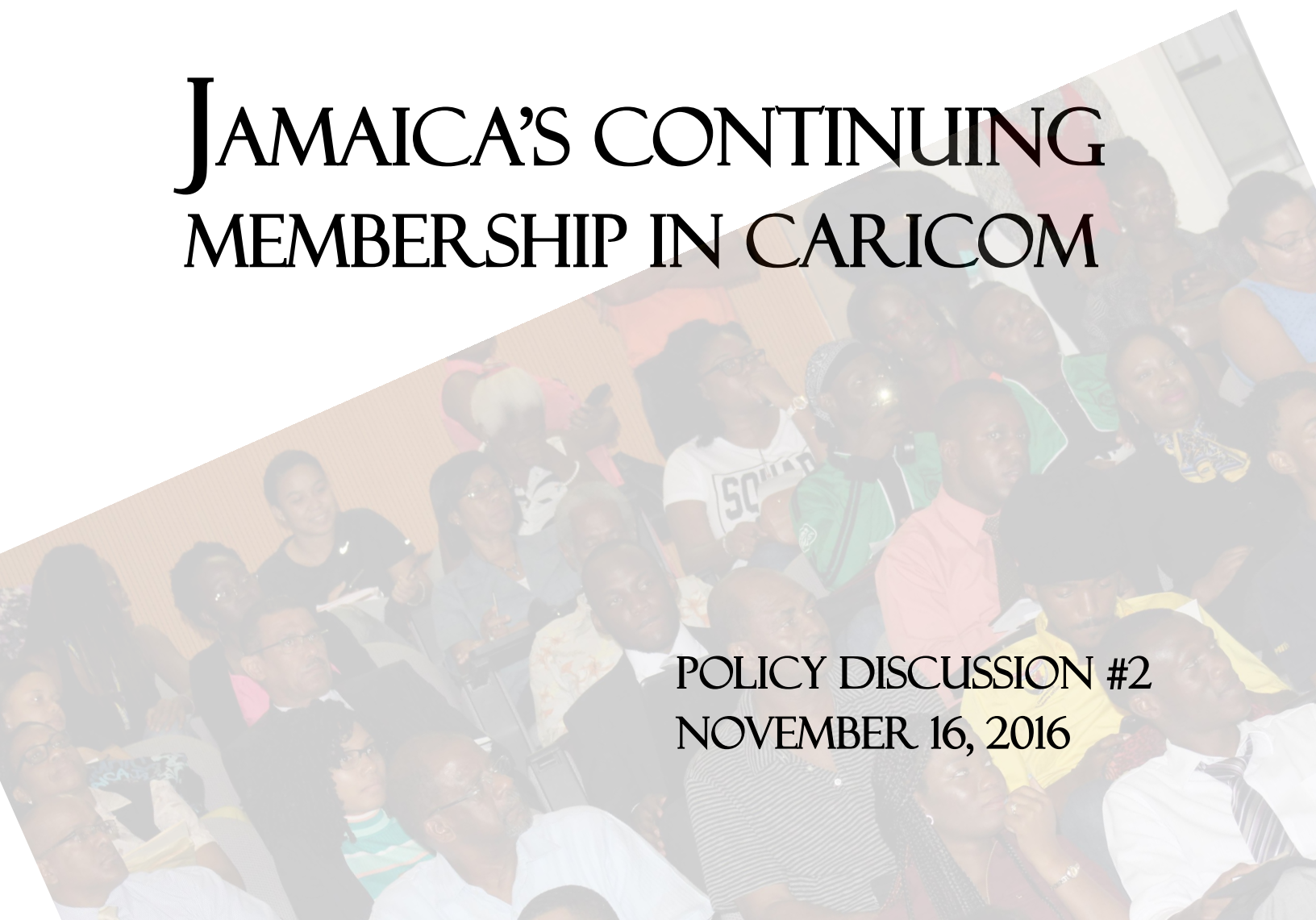


UWI ECONOMICS

Policy Discussion Series

JAMAICA'S CONTINUING MEMBERSHIP IN CARICOM

POLICY DISCUSSION #2
NOVEMBER 16, 2016



INTRODUCTION

The relationship of Jamaica with its Caribbean neighbours in a regional organisation was first publicly discussed at a conference in Montego Bay in 1947, where the question of regional political integration was tabled. Following these initial discussions, 11 years later, the West Indies Federation was established, comprising 10 English-speaking countries. The failure of the Federation put an end to political integration, but it did not destroy the concept of regional cooperation. Fifteen years later the Caribbean Community (CARICOM) was established.

CARICOM is a grouping of twenty countries: fifteen Member States and five Associate Members. It is home to approximately 16 million citizens. As an integration movement, CARICOM has been designed to promote the development of the Caribbean Region through economic integration, functional cooperation (human and social development and security), and foreign policy coordination.

Today, 43 years since its establishment, issues concerning the effectiveness of CARICOM and whether the membership in CARICOM is worthwhile for respective Member States, have been raised. Jamaica has formed a Review Commission to assess the country's current position in CARICOM and determine the way forward. What are the key considerations that will dictate Jamaica's involvement in CARICOM going forward?

In keeping with its mandate to contribute to public policy through research and public discussions, the Department of Economics (DoE), held the second instalment of its Policy Discussion Series, on Wednesday November 16, 2016, UWI Mona campus. The highly respected and experienced panel of domestic and regional experts, provided insights from four different angles and, of keen interest, raised important considerations and implications for policy decisions.

THE CASE FOR INTEGRATION

Facilitating trade is important to growth (King). In the academic arena, most studies have been able to demonstrate a significant positive relationship between trade and growth, and none have been able to show a negative one.



L-R: Hon. B. Golding; D. King; Hon. O. Arthur; and L. Watson

CHAIRPERSON

Dr. Nadine McCloud-Rose: Snr. Lecturer, Dept. of Economics (UWI, Mona)

PANELISTS

Hon. Owen Arthur: Former Prime Minister of Barbados

Hon. Bruce Golding: Former Prime Minister of Jamaica &
Chairman of Jamaica's CARICOM Review Commission

Dr. Damien King: Snr. Lecturer, Dept. of Economics (UWI, Mona)

Mr. Larry Watson: GM Confectionary & Snacks JA Ltd., & President,
Jamaica Chamber of Commerce

Additionally, the evidence has shown that no country has successfully eliminated trade with foreign countries and experienced rapid economic growth (King).

The concept of a Caribbean Region without borders, has been a vision since the 1970's. The treaty of Chaguaramas and the establishment of the CSME were all located in an attempt to achieve this. According to Dr. King, while making the economic case for integration, borders, tariffs and duties do not benefit economies, they only restrict and limit commerce. Creating borders only segments the economic space that was intended to maximize economic activity. Even if such segmentation is pursued, who decides the 'right scale', and what makes it 'just right' for the intended purpose?

The reality is that Jamaica, unlike, say India or China, is not in a position to generate and sustain growth internally (Golding). The market is too small, and lacks depth and diversity to create the range of opportunities to attract the kind and level of investment needed to drive growth (Golding).

The benefit of being a part of a larger economy, is quite evident on the production side, which brings rationalized productive efficiency and more innovation and enables the production of items which could not be produced without being a part of the global scale (King).

Pursuing opportunities in the region is the most realistic way of achieving such economies of scale (Golding). Currently, with approximately 16 million citizens, CARICOM represents only a half of the Venezuelan population and less than 10% of Brazil. Consequently, there may be the need to expand the regional arrangements into embracing the Dominican Republic and Cuba (Golding). The greater the economic space to which you belong, the greater the benefits. CARICOM is a vehicle to overcome the arbitrary political borders that exist in order to achieve the national economies of scale (King).

The configuration of the regional partnership also raises other issues over and above the economic space created. Currently the borders/divisions, while somewhat facilitative of goods and services, are not as facilitative of the free movement of capital and labour, which could improve the quality of the relationship between countries and encourage growth.



L-R: Prof. Kirton; D. King; and the Hon. O. Arthur

CRITICAL CONSIDERATIONS

A primary consideration for Jamaica's future with CARICOM, is whether Jamaica can foresee not only in but through CARICOM, greater opportunities for: investment—domestic, regional and international; innovation; efficiency improvements; and market penetration (Golding). Getting to that stage requires fundamental changes that include considerations for harmonization of fiscal and monetary policy, uniformity of investment incentives, financial regulations, labour market practices, customs regulations, a common set of standards, and considerations in regional competition policy. Even if free movement of labour is not immediately doable – given the huge disparities in population size among member states – significant expansion beyond the 10 categories of workers now free to live and work throughout the CARICOM Region is envisioned (Golding).

This process is not without its hazards. The challenge is finding the right balance where some may win more than others, but nobody loses, and so that those who win less do so not because of the size or the configuration of the relationship, but largely because of their own failure to grasp the opportunities that it offers (Golding).

“A primary consideration for Jamaica's future with CARICOM, is whether Jamaica can foresee not only in, but through CARICOM, greater opportunities for: investment—domestic, regional and international; innovation; efficiency improvements; and third, market penetration.”

~ Hon Bruce Golding



Top Right (clockwise): D. King; Hon. B. Golding; L. Watson; N. McCloud-Rose; Hon. O. Arthur.

PROSPECTS & PITFALLS

The Caribbean business environment has been a very important market for building out the network of Jamaican companies such as Appleton Jamaican Rum, which increased sales from 150,000 cases in 1991, to 1 million cases in 10 years (Watson). Other success stories include Grace, Sandals, Facey, and the Musson Group.

The monetary and macroeconomic policy of a country, however, impacts the extent to which these successes can be replicated, and continues to be important for the private sector to grow (Watson). Between 1995 and 2010, Jamaica's trade balance with Trinidad deteriorated by 295%, while T&T's balance to Jamaica increased by 268% (Watson). The difference has been attributed to Trinidad's promotion of manufacturing through its incentive policy for capital equipment, whereas in Jamaica duties were being charged on the same equipment (Watson). Successes and failures were also attributed to the interest rate on loans which in Trinidad were 25% of what was being charged in Jamaica (Watson).

"The Government's role with monetary policy and macro indicators has been an important element for the successes of many companies and continues to be important for the private sector to grow, in Jamaica and the region."

~ Larry Watson

ASSESSING JAMAICA'S MEMBERSHIP

The problems which have been experienced in generating significant benefits of economic integration in the Caribbean stem mainly from two sources (Arthur). The first is the failure to complete and perfect the arrangements for a Single Market. The second is the need to clarify the purpose and direction on the matter of what a Single CARICOM Market should be and to settle upon effective arrangements by which it is to be established.

The terms of engagement of Barbados and Jamaica in CARICOM are similar in nature. Both countries are classified as MDC's. They enjoy the same market access provisions for the trade in goods and services, the movement of capital, and the rights of establishment, and for labour mobility. The Jamaican experience in respect of CARICOM has, however, been strikingly different from Barbados. Whereas Barbados exports EC \$450 million to CARICOM States in 2014, Jamaica exported only EC \$242 million, or about 6% of its merchandise exports. There can be no doubt that the application of the arrangements for regional integration in the Caribbean has not always conformed to best practices, and may explain a part of Jamaica's experience in the CARICOM market.

When dealing with issues relating to competitiveness, it has to be noted that enterprises rather than countries compete. The future of Jamaica in CARICOM may, therefore, come to depend more on how enterprises fashion new business strategies, making the region their oyster rather than on what the Government of Jamaica does in fashioning new Treaty relationships.

Towards a more perfect CSME

The creation of the Single Market has, to date, been largely and effectively a legal exercise. There are, in this regard, fundamental issues relating to the application of rules of origin, trade facilitation, non-tariff barriers and the resolution of disputes that need effectively to be resolved. A vital aspect of the effort to create a Single Market has been the provision made for labour mobility. It should now be clear that a way has to be found to facilitate managed labour movement which responds to labour market demands to be made part of the regime for integration as distinct from the certification based approach that is now in vogue, in order for it to be most impactful (Arthur).

The initiative that perhaps holds the most promise is that which entails the use of the instruments of the Single Market to facilitate the creation of Pan Caribbean enterprises to undertake production activity that can generate significant regional economic activity on a scale that cannot be achieved by domestic activity only (Arthur).

A New Trade Diplomacy

Former Barbados Prime Minister, Owen Arthur posited that, perhaps, one of the most important reasons why Jamaica must remain fully engaged in CARICOM is Jamaica's leadership responsibility for the region's external trade relations.

Global economic activity is about to be heavily influenced by the emergence of mega trade blocs that go way beyond WTO frameworks (Arthur). If they come into existence, their goods will enter each other markets duty free; those from the Caribbean will be forced to enter duty paid. A disaster, therefore looms, for the Caribbean is not set to have a relationship with these new mega blocs. Without a relationship, and as the region of the world that has the fewest bilateral trade agreements, CARICOM has found itself languishing somewhere in the 20th century, while the rest of the world marches on into the 21st (Arthur).

The Caribbean is the region that, in relative terms, depends most heavily on trade. But it is also the region, which has the worst determinants of trade performance of any region in the world and needs to be revamped to bring such determinants of trade performance in line with international best practice.

The Caribbean will not successfully revamp its trade relations unless it establishes Economic Partnership Arrangements (EPAs) with both Cuba and the Dominican Republic and have them engaged as active partners in forging new relations with the rest of the world (Arthur).

Labour Mobility

The integration movement in the Caribbean must be built upon making the optimum use of its most valuable resource – its people. To realize this, the region must be prepared to go as far as possible, and as fast as possible in making labour mobility the central plank of the integration movement. To accomplish this, two significant constraints need to be overcome (Arthur).

The first has to do with the fact that for a significant part of its existence as a Community, the freedom of movement of persons was outlawed by Treaty in CARICOM.

Article 38 of the original Treaty of Chaguaramas, read as follows:

“Nothing in the Treaty should be construed as requiring or imposing any obligations on a member state to grant freedom of movement to persons in its territory, whether or not such persons are nationals of other Member States.”

Having outlawed labour mobility, by Treaty, for over thirty years, the region will have to accept that only the most proactive efforts can now suffice to overcome such a deep seated barrier (Arthur). It should therefore approach the labour mobility issue by turning around this fundamental imbalance and bringing it in favour of CARICOM nationals (Arthur).



L-R (front row): Mr. Colin Bullock; Dr. Dillon Alleyne; Ambassador Richard Bernal.

“CARICOM is a vehicle to overcome the arbitrary political borders that exist in the region, in order to achieve the national economies of scale.”

~ Damien King

A Confidence Boost

CARICOM has come to appear as such a dismal failure that only a strong confidence boosting measure will suffice to rescue it. That statement of confidence can come from all jurisdictions accepting all aspects of the Caribbean Court of Justice.

The treatment of the Court to date has been tantamount to a vote of no confidence in the integration movement itself. Former Prime minister of Barbados Owen Arthur stated that “Jamaicans and all others in the Caribbean have nothing to fear from our regional Court, therefore it is therefore time to make our regional Court the perfect metaphor for what regional integration must truly be about”.

CONTINUING THE RELATIONSHIP

There is now need for clarity of purpose and certainty of direction on the matter of what a Single CARICOM economy should really be and the process by which it should be established. The benefits that have accrued to member states, especially from functional cooperation in health, education, security and in the provision of common services across a wide range of human and social activity have been so significant and sustained that the only issue which arises relative to this sphere of integration is that as to how the programme can and should be further strengthened (Arthur).

“Perhaps, one of the most important reasons why Jamaica must remain fully engaged in CARICOM is Jamaica’s leadership responsibility for the region’s external trade relations.”

~ Hon. Owen Arthur

Economically, regional integration creates clear benefits for growth and development, through the facilitation of commerce. For many businesses, regional markets have proven to be a factor in their success and a contributor to future development. The partnership, however, extends beyond trade arrangements, affecting working relationships and having inherent historical and cultural significance. Consequently, the implications of regional decisions facilitated outside of the country and intended for governments to impose as law, can be dangerous. There is, therefore, a need to engage the regional publics in detailed discussions about the regional integration project.



Top Right (clockwise): Dr. Gordon (DoE); C. Bullock, guest and T. Campbell; members of the audience; member of the audience; R. Aitken (MD); member of the audience.

The Department of Economics (DoE) wishes to express its appreciation to the audience and the experienced and respected panel. We eagerly look forward to hosting more discussions of this nature. Here’s a list of upcoming events to look out for:

- Pre-budget Forum
- Post budget Forum
- Economics Conference (March, 2017)

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